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- (1) confront unique terrain and density issues,
- (2) they are still, at bottom, using the same
- (3) technology, the same types of facilities, the
- (4) same engineering network architecture. And I
- (5) don't really believe that it is not possible
- (6) to develop - to incorporate them into a
- (7) modeling approach. And what that will do is
- (8) to de-link support from the company's own
- (9) self-serving cost investment and operations
- (10) decisions. It will also de-link the funding
- (11) mechanism from cost allocations, which - I
- (12) was describing to somebody yesterday - as 99
- (13) part art and 1 part science. And I think I
- (14) may be overly exaggerating the amount of
- (15) science.
- (16) We need to come up with mechanisms
- (17) that are out of the hands of the individual
- (18) companies and that provide a robust and
- (19) consistent basis for funding irrespective of
- (20) how these companies are individually managed.
- (21) I don't see in particular reason why that
- (22) cannot be done on a forward-looking basis.
- (23) COMMISSIONER ABERNATHY: Thank you.
- (24) DR. LEHMAN: Could I add something?
- (25) COMMISSIONER ABERNATHY: Not right

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- (1) now, but you'll get a chance. I'm sorry. I
- (2) really want to make sure everybody gets to ask
- (3) questions.
- (4) In fact, my question is kind of a
- (5) follow-up on what Commissioner Nelson started
- (6) with. And that is, I think - Mr. Lubin,
- (7) Mr. Reynolds, Dr. Lehman, the impression that
- (8) I got is you're basically saying - without
- (9) regard to what we do with ETC - that we just
- (10) keep the status quo. There is really no
- (11) changes that need to be or should be made
- (12) today. But most economists would argue that
- (13) we need to at least get a grip on how we can
- (14) create incentives for efficiency.
- (15) And so my question to all of you is,
- (16) is there anything that can be done today, or
- (17) are you saying, let's just - no change?
- (18) DR. LEHMAN: This is Dale Lehman.
- (19) I do think that the idea of the price
- (20) cap has some merit if you want to enhance
- (21) cost-reducing incentives. As I thought about
- (22) it a little more, I think my biggest concern
- (23) is with these very small carriers, some of
- (24) them have - their plant is in a different
- (25) shape. And sometimes carriers change, and all

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- (1) of a sudden they need invest more where
- (2) historically they may not upgraded facilities
- (3) very much.
- (4) And you can handle this through
- (5) special cases, but I guess I just want to
- (6) throw out another alternative, which is maybe
- (7) we cap the fund at the state level. Each
- (8) state gets indexed by inflation the amount of
- (9) high-cost funding it previously got in the
- (10) last 12 months. And then let the states work
- (11) out internally how that filters down to the
- (12) various companies they have within the state,
- (13) which I think on the face of it has the appeal
- (14) to me in terms of having the state make some
- (15) closer-to-the-ground decisions about where the
- (16) money is best used. So, it provides - I
- (17) think it provides a lot more discipline in the
- (18) marketplace without what I would call
- (19) handcuffing individual carriers in a way that
- (20) might be very difficult for a small carrier.
- (21) COMMISSIONER ABERNATHY: Mr. Lubin.
- (22) MR. LUBIN: It's a very tough, tough
- (23) question. My bottom line is the system is so
- (24) fundamentally broken, whether it's USF
- (25) methodology we're talking about now, whether

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- (1) It's USF contribution, whether intercarrier
- (2) compensation. It's fundamentally broken. And
- (3) from my point of view, the most important
- (4) thing in terms of prioritization of resources
- (5) is to try to figure out the intercarrier
- (6) compensation and the contribution methodology.
- (7) Once you've solved that - and, in
- (8) fact, in some of the solutions, in particular
- (9) the ICF, has included various components that
- (10) addresses these issues, in particular the one
- (11) that I've already described that says the
- (12) incumbent rate-of-return carrier should have a
- (13) different subsidy per line than an ETC if the
- (14) subsidy per line is rising because of the
- (15) incumbent losing lines. And the CETC
- (16) shouldn't be given that. And that should be
- (17) clear that that's not going to happen. So,
- (18) you create inefficient entry.
- (19) Thank you.
- (20) COMMISSIONER ABERNATHY: Mr.
- (21) Reynolds.
- (22) MR. REYNOLDS: Thank you,
- (23) Commissioner Abernathy.
- (24) I think one of the presumptions here
- (25) that efficiencies can only be created through

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- (1) regulation is a little bit off the mark.
- (2) Generally speaking, I think that there are a
- (3) lot of reasons why the companies want to
- (4) operate efficiently, certainly just not to
- (5) gain a system of universal service support.
- (6) One of the things -- and this kind of
- (7) goes to Dr. Lehman said that you don't want to
- (8) create an incentive that removes an incentive
- (9) to invest in rural America. And aside from,
- (10) you know, kind of the strict language of what
- (11) we think Congress intended with the Act, which
- (12) is to have a specific, sufficient, and
- (13) predictable universal service fund, there's
- (14) also this concept of uncertainty that comes
- (15) along with the idea of continually changing up
- (16) the regulatory scheme so that as you go to the
- (17) capital markets, for instance, to draw down
- (18) money so that you can invest in rural markets
- (19) for rural consumers, that that creates a lot
- (20) of the uncertainty.
- (21) So, I think when Joel describes
- (22) sequencing some of these regulatory events,
- (23) it's -- I wouldn't characterize it as business
- (24) as usual. I think that what ITTA is saying in
- (25) this instance is don't change the current

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- (1) system until we get some of these other items
- (2) sequenced properly. And they all need to be
- (3) taken in kind of the wholistic sense. And
- (4) we're not interested in operating in an
- (5) inefficient fashion at all.
- (6) Thank you.
- (7) COMMISSIONER ABERNATHY: And then --
- (8) MR. COIT: Excuse me. May I just
- (9) make a brief comment?
- (10) COMMISSIONER ABERNATHY: Sure.
- (11) MR. COIT: I would like to just -- I
- (12) think this needs to be said. And with respect
- (13) to forward-looking cost models or any sort of
- (14) price-capping mechanism -- Mr. Lehman
- (15) commented on this a little bit -- we're
- (16) talking about a smaller company. I think
- (17) Mr. Lubin indicated earlier and made the
- (18) suggestion that, you know, Verizon loses lines
- (19) and they deal with it.
- (20) A rural carrier losing lines
- (21) obviously because of their limiting economies
- (22) is in a much more difficult position in terms
- (23) of dealing with. In addition to that, you
- (24) know, with respect to the forward-looking cost
- (25) model, you know, one of the reasons that the

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- (1) RTF after their studies recommended that it's
- (2) not appropriate or suitable for rural
- (3) companies was because of the disproportionate
- (4) impact on rural carriers as a result of errors
- (5) in the model.
- (6) I think the disproportionate impact
- (7) that we're talking about if you look at
- (8) that -- looking at some sort of price-capping
- (9) mechanism is that when a rural carrier has to
- (10) replace a switch, the percentage of cost that
- (11) that makes up on the entire rural cost
- (12) carrier's of that year is much than for larger
- (13) carriers. They're not in a position to deal
- (14) as easily with substantial investments that
- (15) are needed in their networks because of
- (16) whatever technology that may be coming down
- (17) the road that they really feel their customers
- (18) need in order to get the services that they
- (19) deserve.
- (20) So, you know, I think that is a
- (21) caution that, you know, don't forget about the
- (22) economies that are faced. And they're much
- (23) different and the impacts are much different.
- (24) And I'm not sure that price capping mechanisms
- (25) just as forward-looking mechanisms can deal

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- (1) with that in a very easy way.
- (2) Thank you.
- (3) COMMISSIONER ABERNATHY: Well, that
- (4) sort of leads to my next question, which was,
- (5) in the old technology world, I think, yes,
- (6) that was true because all you were delivering,
- (7) the only revenue source you had from the loop
- (8) to home was voice. And there was a certain
- (9) amount that we believed that consumers would
- (10) pay for voice and that's where we were.
- (11) But as we're moving into a world
- (12) where the pipe to the home can deliver many
- (13) other valuable services so you've got multiple
- (14) revenues streams from that source, how does
- (15) that or how can we factor that in when we look
- (16) at what, if any, changes should be made?
- (17) Because it really changes the way that you
- (18) recover your cost for your plant, because all
- (19) of a sudden the plant can deliver more value
- (20) than it used to deliver in the old world.
- (21) Mr. Lubin, Mr. Coit, and then Mr.
- (22) Weller.
- (23) MR. LUBIN: I want to respond
- (24) directly, but I just want to make a highlight
- (25) on Mr. Coit's point.

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- (1) And my highlight to him is the very
- (2) reason that he is articulating his last point
- (3) is the reason why I was bifurcating the
- (4) difference between an incumbent like Verizon
- (5) versus a rate-of-return entity, literally
- (6) having two different approaches. With regard
- (7) to the broadband, for me, that's a wonderful
- (8) question in the following sense: It comes back
- (9) to the issue - and I'm going to focus on
- (10) rate-of-return rural companies - if you're
- (11) rate-of-return today and you are trying to
- (12) make a decision of do I market - not do I
- (13) deploy broadband investment because if you're
- (14) rate of return, I believe you have every
- (15) economic incentive to deploy investment. Do
- (16) you have the incentive to market the
- (17) broadband?
- (18) And when you're talking about 1300
- (19) companies, everybody is all over the place.
- (20) So, I'm just making a general observation.
- (21) And the general observation is, you made the
- (22) point, well-founded, that says there's going
- (23) to be new revenue opportunities. And the
- (24) point that I want to make, though, is if we
- (25) don't fix intercarrier compensation, then the

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- (1) average intrastate access revenue is five
- (2) cents per minute to originate and terminate
- (3) the rate, and that goes from anywhere from,
- (4) say, two cents to 35 cents - I just quoted
- (5) you the average of five - if they sell that
- (6) broadband pipe and then somebody puts an
- (7) application called VoIP, voice over the
- (8) Internet, over that, they're going to
- (9) cannibalize. And if that customer is a
- (10) high-toll generator in a high-toll traffic,
- (11) well, they're going to cannibalize. So, the
- (12) point is unless we fix intercarrier
- (13) compensation, we don't have the right
- (14) incentive. In fact, we have a disincentive
- (15) for the incumbent to aggressively market that
- (16) product to the rural customer.
- (17) COMMISSIONER ABERNATHY: And, yes, I
- (18) hear you on and - yes. We know that. And,
- (19) unfortunately, this Joint Board, we don't -
- (20) that's not our area or our proceeding. But I
- (21) think at the FCC there is a real recognition
- (22) that intercarrier comp distorts all kinds of
- (23) market behaviors and destroys business plans.
- (24) And the distortions flow over into rural areas
- (25) as well as the non-rural areas. So, I agree

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- (1) we've got to deal with that. And, you know,
- (2) at the FCC we're looking forward to putting
- (3) out a proceeding seeking comment on the most
- (4) recent proposals. And we really appreciate
- (5) all the work that's been done on it.
- (6) So, I think what we're trying to do
- (7) here today is say, in addition to that, what
- (8) else can we do. But thanks for pulling them
- (9) together.
- (10) I can't remember what three people I
- (11) called on, now. I think Mr. Weller and I
- (12) believe Mr. Coit.
- (13) MR. COIT: And I'll be brief. Just
- (14) with respect to the question of whether, you
- (15) know, given the increased value of - what the
- (16) effect of that might be, I would agree that
- (17) certainly there are additional services that
- (18) are provided over those facilities which
- (19) certainly offers some opportunity.
- (20) At the same time, though - I think
- (21) this is in part what Mr. Lubin was getting
- (22) to - we're dealing with the intercarrier comp
- (23) issues and rural carriers on average - and I
- (24) don't know exactly what the percentage is in
- (25) South Dakota today, but we all know that

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- (1) across the country in terms of total revenue
- (2) recovery, looking at rural carriers, much of
- (3) it is wrapped up in assets in USF.
- (4) And to the extent that you may gain,
- (5) you know, some additional revenue from some
- (6) additional services, maybe that's going to
- (7) just be necessary to replace what we've lost.
- (8) But, you know, certainly there's a lot of
- (9) pressures on the other revenues. So, that has
- (10) to be taken into account.
- (11) COMMISSIONER ABERNATHY: Mr. Weller,
- (12) you'll have the final word.
- (13) MR. WELLER: Thank you, Chairman
- (14) Abernathy.
- (15) I think, first of all, as far as
- (16) adding value is concerned, that's what you
- (17) want the carriers to do. You want to
- (18) structure the system so that you can give them
- (19) incentives to do that. Their circumstances
- (20) are very different from ours, of course, but
- (21) we want that same incentive to add value to
- (22) replace what you're losing in your traditional
- (23) business.
- (24) And I think that decoupling the
- (25) support from the variations that we've had,

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- (1) the calculations that we've done in the past,  
 (2) is part of that. In other words, you want the  
 (3) support to reflect some sort format that they  
 (4) can get but they have to work with in order to  
 (5) go forward.  
 (6) Interestingly, I've just heard some  
 (7) interesting programs that the British have  
 (8) adopted to address this concern that  
 (9) Mr. Lehman raised about putting broadband in  
 (10) rural areas and not having anybody sign up.  
 (11) That's a little outside of the scope of the  
 (12) discussion here. I'd be happy to talk to you  
 (13) about it off line.  
 (14) But the final observation is simply  
 (15) that market structure is an outcome in terms  
 (16) of relative sizes of firms and how they're  
 (17) organized. And I think that rather than try  
 (18) to design the system to preserve the current  
 (19) market structure, what we have to do is put  
 (20) incentives in place and then let the firms  
 (21) respond to those incentives possibly by  
 (22) choosing different market structures. In  
 (23) other words, if one of the concerns about the  
 (24) incentive is to scheme, it's that it becomes  
 (25) harder and harder for carriers the smaller and

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- (1) smaller they get and the less averaging you  
 (2) have. This may create incentives for carriers  
 (3) to restructure themselves so as to better  
 (4) position themselves to deal with these market  
 (5) realities going forward.  
 (6) COMMISSIONER ABERNATHY: Commissioner  
 (7) Dunleavy.  
 (8) COMMISSIONER DUNLEAVY: Thank you,  
 (9) Madam Chairman.  
 (10) In honor of Bob Rowe, I was going to  
 (11) try to formulate a really complex, multi -  
 (12) (Laughter.)  
 (13) COMMISSIONER DUNLEAVY: My colleagues  
 (14) have asked all the questions and the panelists  
 (15) have answered them, so I've got to get back to  
 (16) basics here. The basic question posed by this  
 (17) panel was, should rural carrier support be  
 (18) based on embedded or forward-looking costs?  
 (19) Not surprisingly, implicit in all of the  
 (20) answers there seems to be significant  
 (21) differences of opinion on whether the purpose  
 (22) of that support should be to maintain the  
 (23) financial health of an incumbent LEC or to  
 (24) mitigate the higher cost.  
 (25) Let me ask you to assume for a

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- (1) moment - and that's probably dangerous -  
 (2) that the purpose of the high-cost support is  
 (3) to mitigate cost differences among different  
 (4) areas, rather than the different cost among  
 (5) different carriers. Given that assumption,  
 (6) our task would be to determine if cost  
 (7) variations exist among various areas of the  
 (8) country. Now, Mr. Coit, perhaps can do a  
 (9) better - you might help me out.  
 (10) Population density is or appears to  
 (11) be a significant driver of cost disparities  
 (12) among various areas of the country. Are there  
 (13) any other characteristics, perhaps  
 (14) topographical, climatic, that contribute  
 (15) significantly to such cost differentials?  
 (16) MR. COIT: Yes. I think there are a  
 (17) lot of them. I think that that's primarily a  
 (18) problem in trying to come up with a  
 (19) forward-looking mechanism that would be  
 (20) accurate enough that you don't have some  
 (21) significant errors that cause some impacts  
 (22) that you don't want to see. I think low  
 (23) density, though, is a huge driver.  
 (24) You know, in a lot of cases, I think,  
 (25) it boils down to distance. You know, if you

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- (1) just look at the areas, if you only have 2.1  
 (2) subscribers per route mile, it's pretty  
 (3) obvious that you're going to spend a lot more  
 (4) to reach those subscribers. And it's the  
 (5) function, I think of a lot of things. And I  
 (6) know I'm not giving you much of an answer  
 (7) here, but do I think it's a multiple number of  
 (8) factors. You know, size of the company  
 (9) certainly has a lot to do with it as well in  
 (10) terms of number of people that you have - the  
 (11) number of people that you have working for the  
 (12) company and the number of people that you're  
 (13) serving.  
 (14) COMMISSIONER DUNLEAVY: That being  
 (15) the case, would it make any sense to identify  
 (16) a half dozen or dozen types of service areas,  
 (17) if you will, reflecting density and other  
 (18) significant cost factors and then estimate  
 (19) average costs of serving each type of that  
 (20) area in an efficient manner?  
 (21) MR. COIT: I personally don't believe  
 (22) that you should necessarily look at just the  
 (23) area served. I really do believe that larger  
 (24) companies have some economies and somebody to  
 (25) manage it that smaller companies do not have.

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- (1) In a competitive environment, it's certainly
- (2) harder to average and price the way you want
- (3) to price, but I don't think any of us could
- (4) say there isn't some averaging that occurs.
- (5) And I think that, you know, if you're
- (6) looking at areas served rather than the
- (7) companies, I think you're assuming that there
- (8) aren't any of those efficiencies. And I don't
- (9) think that's appropriate. I think you need to
- (10) look at areas served in part, but I think more
- (11) than anything it should be tied to the
- (12) companies directly, and we define the
- (13) companies appropriately based on the areas
- (14) they serve.
- (15) COMMISSIONER DUNLEAVY: I wonder, Dr.
- (16) Lehman, if perhaps -- and maybe this is
- (17) further expanding on what Commissioner
- (18) Abernathy asked. Could we invent a similar
- (19) means of estimating costs and perhaps based on
- (20) actual costs, the best-in-class or something
- (21) like that?
- (22) DR. LEHMAN: Two different answers,
- (23) one to the first question. I'm in agreement
- (24) with Dr. Selwyn here. I actually think that
- (25) order of magnitude forward-looking estimates

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- (1) probably can be accurately obtained. My point
- (2) would be that order of magnitude is not good
- (3) enough for small carriers. It's the
- (4) difference between making far too much money,
- (5) far too little money, or possibly the right
- (6) amount.
- (7) And to Mr. Weller's point, I don't
- (8) really think you want to pre-guess the market
- (9) structure and put small companies out of
- (10) business because they can't live with the
- (11) degree of accuracy that you're able to produce
- (12) in the forward-looking cost model.
- (13) Now, having said that, to the last
- (14) question that you just asked, are there other
- (15) ways to come at what a forward-looking cost
- (16) might be. You know, I've done some
- (17) simulations of how forward-looking costs and
- (18) embedded costs differ across a number of
- (19) characteristics. And you can produce fairly
- (20) confident predictions about how different they
- (21) might be, and it's on the order of 10 percent
- (22) or less for loop costs.
- (23) But having done that, in the end,
- (24) what do you come up with? You come up with
- (25) something that's only validated by comparison

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- (1) to embedded costs anyways. It sounds like a
- (2) lot of work to still be -- you have to
- (3) validate the results of this to know that you
- (4) have reasonable cost estimates. And there's
- (5) nothing else to look at other than embedded
- (6) costs. So, in the end embedded cost have to
- (7) be the guide to whether you came up with a
- (8) reasonable cost model. You have a thousand
- (9) inputs. And even if you 900 of them are
- (10) accurate, you don't know if you have a
- (11) reasonable output of that model unless you
- (12) compare it to something real. And
- (13) unfortunately the only real data we have to
- (14) compare it to is embedded cost.
- (15) COMMISSIONER DUNLEAVY: That's a
- (16) little different than Dr. Selwyn.
- (17) DR. SELWYN: Just one quick comment.
- (18) Dr. Lehman mentioned the model that he
- (19) developed which compares embedded and
- (20) forward-looking costs. I have looked at his
- (21) paper and reviewed his work. And basically
- (22) that analysis starts with the same set of
- (23) inputs. So, in other words, if the costs --
- (24) if the basic investments numbers are wrong to
- (25) begin with, then the relationship is

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- (1) identified while -- while, you know,
- (2) interesting at an academic level, it doesn't
- (3) really teach anything about what happens if
- (4) you apply an efficient forward-looking cost
- (5) model one the hand versus just simply taking
- (6) the books -- the costs on the company's books
- (7) as embedded costs as a given. We have no
- (8) information right now as to what that
- (9) relationship is.
- (10) We need to start -- even an indexing
- (11) mechanism, for example, simply preserves --
- (12) unless it takes a fresh look at what the costs
- (13) ought to be, then it's simply preserving
- (14) whatever inefficiencies -- locking in whatever
- (15) inefficiencies may already be present.
- (16) When the Commission -- when the FCC
- (17) and the state commissions initially adopted
- (18) price cap regulation for the larger LECs, what
- (19) they did in virtually every case was to
- (20) conduct a full-blown general rate case to
- (21) establish a going-in rate level. And then
- (22) they indexed from that. They didn't simply
- (23) take whatever the pre-existing rate level
- (24) happened to be and go forward into a price cap
- (25) world.

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- (1) And so, if an indexing mechanism –  
 (2) which might, in fact, have some merit going  
 (3) forward at least on a transitional basis until  
 (4) we get to forward-looking costs. If that were  
 (5) to be adopted, we would still need to validate  
 (6) the going-in cost levels as the Commission and  
 (7) the state commissions did when we went to  
 (8) price caps.
- (9) MR. GARNETT: Just getting back to  
 (10) the original question, I think we would agree  
 (11) that in rural areas you're going to have to  
 (12) deal with – especially for small carriers,  
 (13) you're going to have to deal with the number  
 (14) of other inputs. The Alaska Commission in  
 (15) their comments talks about a long list of  
 (16) inputs the Commission could consider. We're  
 (17) realistic that it's going to take a while to  
 (18) put smaller carriers on a forward-looking  
 (19) system, and that that system needs to account  
 (20) for those differences.
- (21) But the fact is that 75 percent of  
 (22) the 1300 study areas that Mr. Lubin has talked  
 (23) about are 65 percent of the rural telephone  
 (24) company access lines. And those are all  
 (25) carriers with over 50,000 lines in a study

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- (1) area. Those aren't the companies that we're  
 (2) talking about when we're talking about some of  
 (3) the real problems with the forward-looking  
 (4) mechanism that we have right now. And, you  
 (5) know, we think that it's – it makes sense to  
 (6) move those bigger companies. I think Verizon  
 (7) said it should be if you have over 100,000  
 (8) access lines in the state. In our comments we  
 (9) say 50,000. You know, we can split the  
 (10) difference, that's fine with us.
- (11) But the point is that for some of  
 (12) these bigger rural telephone companies,  
 (13) they're looking a lot more like non-rural  
 (14) telephone companies that have been under a  
 (15) forward-looking mechanism for several years  
 (16) now. And in many cases they're much bigger  
 (17) than some of the non-rural carriers that are on  
 (18) the forward-looking mechanism.
- (19) I think it was either Sprint or  
 (20) Verizon in their comments that noted that  
 (21) Roseville in California has just over 100,000  
 (22) access lines. They've been on a  
 (23) forward-looking mechanism, and I think they're  
 (24) still in business. They've haven't declared  
 (25) bankruptcy. Things are going okay. And so,

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- (1) all of these predictions of sort of dire  
 (2) consequences of going to a forward-looking  
 (3) mechanism for – especially for the bigger  
 (4) rural carriers, I think are a little bit of,  
 (5) you know, seriously conclusory statements.
- (6) One of the other things I've also  
 (7) heard from a number of people here is that we  
 (8) shouldn't do it because it's difficult. I see  
 (9) in a lot of the comments it's complex, it's  
 (10) difficult. That shouldn't be a reason for not  
 (11) picking the right outcome, the right  
 (12) mechanism. And we think there are a lot of  
 (13) smart people in this room and together we  
 (14) could probably come up with pretty good  
 (15) forward-looking mechanism that accounts for  
 (16) all the differences that we've talked about.
- (17) COMMISSIONER DUNLEAVY: Mr. Reynolds,  
 (18) briefly because I've overdone my time.
- (19) MR. REYNOLDS: I'll be brief.  
 (20) Responding to Mr. Garnett, first of all, one  
 (21) of the things – absolute line size has never  
 (22) been an attribute at all to whether somebody  
 (23) is rural, whether they have high cost, low  
 (24) cost, or whatever. You can have poor study  
 (25) areas and we have member companies in a states

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- (1) like Montana, the large, square states,  
 (2) noncontiguous operating areas. Line size has  
 (3) nothing at all to do with the operating  
 (4) characteristics of those companies. It's not  
 (5) captured in the cost models.
- (6) And I'd also go back and just –  
 (7) there are a lot of smart people in this room.  
 (8) There are a lot of smart people associated  
 (9) with the Rural Task Force. And when you go  
 (10) back and you look at the effort that they did  
 (11) in their working paper number four to validate  
 (12) how the FCC synthesis model would treat rural  
 (13) companies, you find a dislocation of about  
 (14) \$1.1 billion in loss of support to the rural  
 (15) companies, which included holding companies  
 (16) that have rural companies and stand alone  
 (17) rural companies.
- (18) Thank you.
- (19) COMMISSIONER MARTIN: Mr. Weller, I  
 (20) saw in your testimony and was intrigued about  
 (21) your discussion about a presumption of one ETC  
 (22) in each area. And I was wondering if you  
 (23) could give us insight into how and who would  
 (24) choose what the one ETC would be in your  
 (25) proposal.

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- (1) MR. WELLER: That's an interesting  
 (2) question. You keep coming back to who gets  
 (3) the money, don't you? Frankly, I think in the  
 (4) near term there may be a strong presumption  
 (5) that it would be the incumbent because of the  
 (6) cost of dislocation to consider. I think down  
 (7) the road if you're talking about something  
 (8) completely different, thinking beyond the near  
 (9) term, I'd say infrastructure grants.  
 (10) I just sat through a couple days of a  
 (11) conference at the OECD looking at efforts to  
 (12) support rural broadband networks throughout  
 (13) the world. And almost without exception there  
 (14) are upfront grants and almost without  
 (15) exception they're awarded on an itinerant  
 (16) basis, option basis.  
 (17) So, I think in the near term if we're  
 (18) talking about who gets the existing  
 (19) regulation, who gets the existing support, as  
 (20) you know, I have made some proposals along  
 (21) those lines in the past. But I'm not sure  
 (22) they're really applicable today when we're  
 (23) trying to change the framework.  
 (24) So, I think these sort of mechanical  
 (25) changes that I've proposed here today are more

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- (1) reasonable things to deal with to do in the  
 (2) near term. Again, it may seem unfair, but I  
 (3) think in the near term given dislocation costs  
 (4) it's not unreasonable, excepting unusual  
 (5) circumstances to give a strong preference to  
 (6) the incumbent. But I think as we go forward  
 (7) beyond that, let's say, for five years from  
 (8) now, that we'll be freer to think of different  
 (9) solutions, and they would become maybe part of  
 (10) the answer.  
 (11) COMMISSIONER MARTIN: I do know  
 (12) you've laid out some other proposals that we  
 (13) have some interest in as well. But this  
 (14) presumption issue, that's one of the five  
 (15) things that you think should be done in the  
 (16) short run, right?  
 (17) MR. WELLER: Yes.  
 (18) COMMISSIONER MARTIN: The other  
 (19) question I had, Mr. Colt, I certainly agree  
 (20) with many of the concerns you expressed about  
 (21) forward-looking costs, some of your concerns  
 (22) about the wireless and other ETCs' ability to  
 (23) obtain support on the basis of the ILEC's  
 (24) costs without having necessarily incurring  
 (25) some of those costs themselves or providing

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- (1) the same kind of service.  
 (2) But I am concerned about one of the  
 (3) things you raise in your testimony and talk  
 (4) about the expansion of the base of universal  
 (5) service contributors to ensure everyone  
 (6) contributes on an equitable basis. And you  
 (7) talk about wanting to have facility and  
 (8) non-facility-based providers of Internet  
 (9) service, all IP-enabled service providers, all  
 (10) cable providers, wireless and satellite  
 (11) providers, and other providers all  
 (12) contributing into the universal service fund.  
 (13) I was wondering if you would assume  
 (14) then that all of those same providers would be  
 (15) able to take out of the universal service fund  
 (16) as well. And if they wouldn't, why is it an  
 (17) equitable basis, which is what keep using as  
 (18) your phrasing, for these providers to pay into  
 (19) a fund that they are not able to take out of?  
 (20) MR. COIT: I guess just generally -  
 (21) and this goes back to, I think - at least  
 (22) ties into some of my opening comments.  
 (23) Whatever mechanism - whatever the mechanism  
 (24) is, you know, as a result of this process and  
 (25) in the future, you know, it really seems to me

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- (1) that it's got to be tied to those that are  
 (2) investing in the network. And not all  
 (3) providers do that. The other thing -  
 (4) COMMISSIONER MARTIN: But then I just  
 (5) do want to understand. Then what you would  
 (6) say, though, is any provider that does should  
 (7) be able to take out; is that right?  
 (8) MR. COIT: Not necessarily.  
 (9) COMMISSIONER MARTIN: Not necessarily  
 (10) any - not necessarily?  
 (11) MR. COIT: And that's because if we  
 (12) look at the current situation, we've got a  
 (13) situation today where there are carriers that  
 (14) are getting money out of the universal service  
 (15) fund that have stated very clearly that they  
 (16) don't believe that they have  
 (17) carrier-of-last-resort responsibilities. And  
 (18) if you look at cost drivers for rural  
 (19) carriers, in a lot of cases it's those  
 (20) customers that are so remote that they they're  
 (21) the ones that to some - to a significant  
 (22) degree drive high cost. And if there isn't a  
 (23) sincere commitment to serve throughout the  
 (24) area, I just don't believe the carrier should  
 (25) get any money.

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- (1) And I've sat in two ETC hearings and  
 (2) that question has been asked. And, you know,  
 (3) does the CETC carrier have carrier-of-last-  
 (4) resort obligations, and the answer has been  
 (5) the same both times: no. And I don't agree  
 (6) with that. I think that there's  
 (7) distinguishing -- you know, I think you have  
 (8) to look at who's providing the facilities and  
 (9) who's meeting the obligations. And I also  
 (10) think you have to look at the area and really  
 (11) ask yourself, you know, is this the sort of  
 (12) area where it makes sense to be funding  
 (13) multiple carriers regardless of who that  
 (14) carrier might be.  
 (15) MR. GARNETT: If I could actually  
 (16) respond to both of your questions in one  
 (17) answer, and this is sort of -- kind of a  
 (18) five -- sort of the five years out sort of  
 (19) time frame that Mr. Weller was talking about,  
 (20) that type of a proposal. You know, once a  
 (21) wireline or wireless carrier or whomever  
 (22) satisfies the structural obligations for  
 (23) getting an ETC designation, whether it's state  
 (24) or the FCC, ultimately the true arbiter of who  
 (25) should get the support should be the customer.

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- (1) And for that reason, the Commission  
 (2) really should think about a long-term solution  
 (3) as direct consumer subsidy where you basically  
 (4) have a situation wherein you determine, is  
 (5) this a high-cost area. It's a narrowly  
 (6) defined area. You determine, you know, what  
 (7) the most efficient technology is for that  
 (8) area. You figure out how much support you  
 (9) have available for each customer in that area,  
 (10) and let the customer decide who they spend  
 (11) their dollar on.  
 (12) And that way you deal with both of  
 (13) the issues you raised. You deal with who gets  
 (14) to get the money out. It should be anybody as  
 (15) long as the customer wants that carrier to be  
 (16) their provider. And you deal with the issue  
 (17) of, you know, whether you should limit support  
 (18) to one carrier in an area. If the customer  
 (19) chooses a wireless carrier or wireline  
 (20) carrier, that choice should be respected and  
 (21) that's how the dollar should be spent.  
 (22) COMMISSIONER ABERNATHY: Thank you  
 (23) very much, Commissioner Martin.  
 (24) Thanks to our panelists. What I  
 (25) think we will do now is we will take a

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- (1) ten-minute break before we start with panel  
 (2) two. I do want to thank everyone, and I know  
 (3) some of you are coming back for panel two.  
 (4) This was very, very informative and we  
 (5) appreciate you traveling here.  
 (6) (Whereupon, a break was taken.)  
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- (1) \*\*\*  
 (2) COMMISSIONER ABERNATHY: Thanks again  
 (3) to our panelists. We really appreciate you  
 (4) coming all this way. We don't want to waste  
 (5) your time, so I think we'll start right away  
 (6) with Scott Berge with Midwest. Again, a  
 (7) three-minute presentation, if you could, so we  
 (8) can leave plenty of time for Q and A.  
 (9) MR. BERGS: Thank you. Again, I'm  
 (10) Scott Berge with Midwest Wireless. And first  
 (11) of all, I want to say thank you for the  
 (12) opportunity to address these really important  
 (13) issues. In this proceeding the Joint Board  
 (14) and the FCC will make some decisions that will  
 (15) dramatically impact customers' options for  
 (16) communications services in the high-cost areas  
 (17) of the United States and the overall cost of  
 (18) communication services throughout the United  
 (19) States.  
 (20) The Joint Board and the FCC will be  
 (21) guided and informed by representatives of  
 (22) small ILECs, from medium-sized ILECs, from  
 (23) wireless carriers like Midwest Wireless, and  
 (24) many, many others. But in taking into  
 (25) consideration all of these important views,



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- (1) perhaps the greatest challenge to each of you
- (2) is to distinguish between how your choices
- (3) will impact Midwest Wireless, CenturyTel,
- (4) small independents, or AT&T, and instead focus
- (5) on how your choices will impact the people who
- (6) are living and working in rural, high-cost
- (7) areas in purchasing communications anywhere
- (8) within the United States.
- (9) I know the dramatic disparity between
- (10) wireless consumer contributions to the fund,
- (11) approximately 22 percent, and the small amount
- (12) of consumer-received benefit from the fund -
- (13) the small amount of wireless-consumer-received
- (14) benefit, about 3 percent. I'd point out and
- (15) highlight that point, the customer
- (16) contribution and receipt, notwithstanding my
- (17) own reference in my written comments to the
- (18) provider contributions. They really are not.
- (19) That's a misnomer. They are passed along to
- (20) the consumer, and I think it's important to
- (21) highlight that fact.
- (22) And, of course, finally, the benefits
- (23) derived, if the funds are appropriately used
- (24) or inappropriately used and efficiently used,
- (25) are consumer benefits. And if they are lost,

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- (1) it's the consumer who loses those benefits.
- (2) Rather than focusing a lot on the actual
- (3) economic disparities, I'd like to focus my
- (4) comments briefly on how those consumers will
- (5) be impacted under the various changes that are
- (6) proposed here today.
- (7) The impetus for U.S. commercial
- (8) dominance throughout the world is really our
- (9) consumers' insatiable thirst for innovation and
- (10) additional value. They continually drive
- (11) providers like Midwest Wireless and everyone
- (12) represented in this panel to be more creative
- (13) and efficient in how they provide services.
- (14) By making changes in this proceeding, we have
- (15) to avoid taking away that customer's power to
- (16) force us to be more innovative and more
- (17) efficient.
- (18) As Congress determined in the '96
- (19) Act, customers in rural high-cost areas
- (20) deserve the same types of services and same
- (21) choices of services as those folks living in
- (22) urban areas, and at prices that are comparable
- (23) to their urban counterparts. While USF reform
- (24) is needed now to ensure the long-term
- (25) realization of these goals, we must be mindful

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- (1) that recently great strides have been made
- (2) towards those ends.
- (3) For example, since our designation as
- (4) an eligible telecommunication carrier in
- (5) Minnesota, Iowa, and Wisconsin, Midwest
- (6) Wireless has expanded its coverage through
- (7) additional power facilities and other
- (8) facilities. That has provided health and
- (9) safety benefits in emergency situations -
- (10) giving consumers the ability to dial 911 in
- (11) areas where they simply could not do that
- (12) before - and for emergency responders who are
- (13) responding to those calls, to be able to
- (14) communicate, to learn facts during the
- (15) sometimes sizable drives or transportation
- (16) periods that don't exist at least to the same
- (17) extent in urban areas as they're trying to get
- (18) to that emergency situation.
- (19) So, the residual benefits that
- (20) Midwest Wireless has been able to provide
- (21) consumers in those rural markets that we serve
- (22) is the provision of broadband. We do that
- (23) through a couple of different networks that
- (24) get an ancillary benefit from the funds and
- (25) the facilities that are developed through

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- (1) those funds. We have a 1xRTT network, which
- (2) will be evolving to an 1xEV-DO network; true,
- (3) high-speed broadband access with mobility; and
- (4) also operate an 802.11 network. The
- (5) efficiencies that are gained are that we can
- (6) share facilities with our standard voice
- (7) provision service facilities. And also, we
- (8) can share personnel, our engineers and our
- (9) service technicians.
- (10) In essence, between Midwest Wireless
- (11) and the other carriers competing in our
- (12) markets, we are giving the customers choices
- (13) for service, service provider, customer
- (14) service, and other incremental value that the
- (15) customers demand. These are the benefits that
- (16) were envisioned by Congress to be derived from
- (17) a dynamic and competitive marketplace, and it
- (18) is important that we keep those incentives in
- (19) place.
- (20) So, what do we need to do? Just a
- (21) couple of quick points. First, I want to
- (22) point out that there is growth in the fund,
- (23) and we need to be careful to not let the fund
- (24) get out of control. But there is an inherent
- (25) cap, at least on the CETC side, in the fund

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- (1) itself. While certainly in the short term,
- (2) because we made some accommodations for the
- (3) ILECs back in the RTF order, there is going to
- (4) be growth in the fund as CETCs enter the
- (5) market.
- (6) In the long term as customers
- (7) continue to fill out the number of connections
- (8) that they're going to acquire, they're not
- (9) going to have six, seven, eight connections.
- (10) So, the unlimited and ever-expanding growth of
- (11) the fund is simply not a reality. We must
- (12) preserve the equality in support to preserve
- (13) those motivations to keep carriers entering,
- (14) competitive carriers entering into these
- (15) markets, and to make sure that the carriers
- (16) there are, in fact, being as efficient as they
- (17) possibly can be. We are starting to see that
- (18) by some of the rural ILECs in our service
- (19) territory. We're seeing the handwriting on
- (20) the wall, and anticipating changes, and are
- (21) therefore starting to find efficiencies that
- (22) they previously claimed simply could not be
- (23) achieved, through shared switching facilities
- (24) and other common service components.
- (25) Making these incremental reforms can

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- (1) ensure that the carriers are motivated to
- (2) passionately fight for those customers,
- (3) ultimately reducing the carrier's reliance on
- (4) government-provided subsidies which are
- (5) furnished at the expense of the customers
- (6) themselves. Specifically, in the short term,
- (7) we can mandate disaggregation, targeting
- (8) high-cost support to the highest cost areas of
- (9) a study area. We can move toward
- (10) forward-looking costs. We can stop system
- (11) gaming of large ILECs acting as small ILECs,
- (12) or identifying themselves as small ILECs. And
- (13) we can eventually move towards portability of
- (14) support as mandated by the Act.
- (15) Taking these steps now will ensure
- (16) the customers have a right to an ever
- (17) increasing expectation of value even in these
- (18) rural areas. Thank you.
- (19) COMMISSIONER ABERNATHY: Thank you
- (20) very much.
- (21) And now we'll turn to David Cole from
- (22) CenturyTel.
- (23) MR. COLE: Thank you. Good
- (24) afternoon. My name is David Cole. I'm the
- (25) Senior Vice President of Operations Support

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- (1) for CenturyTel. I'm testifying today on
- (2) behalf of the Independent Telephone and
- (3) Telecommunications Alliance. ITTA is an
- (4) organization of midsize telephone companies
- (5) serving thousands of rural communities across
- (6) the nation. ITTA appreciates this opportunity
- (7) to testify at this hearing. Through this
- (8) testimony, ITTA urges you to recommend that
- (9) CETCs receive universal service support based
- (10) on their own costs as opposed to the costs of
- (11) the carrier-of-last-resort. ITTA also hopes
- (12) you will recommend that the FCC modify its
- (13) safety-valve rules so as not penalize carriers
- (14) that make investments in the first year after
- (15) acquiring a rural exchange.
- (16) CETCs should have to justify their
- (17) receipt of support based on their own costs.
- (18) The costs of the incumbent simply aren't
- (19) relevant. As carriers-of-last-resort
- (20) throughout the communities that they serve,
- (21) rural ILECs have a fundamentally different
- (22) role. Carriers-of-last-resort must serve
- (23) every single customer that requests service.
- (24) CETCs do not. Carriers-of-last-resort must
- (25) comply with strict service quality and outage

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- (1) reporting requirements to ensure that the
- (2) communities they serve are receiving
- (3) high-quality telecommunications services.
- (4) CETCs do not. Perhaps most important,
- (5) carriers-of-last-resort open their books up to
- (6) regulators and have to prove that their costs
- (7) justify the level of universal service
- (8) support. CETCs do not.
- (9) Just like the ILECs, CETCs should
- (10) have to prove that their costs justify receipt
- (11) of support at the level they request. Today,
- (12) the FCC oversees a system that hands out
- (13) hundreds of millions of dollars to CETCs
- (14) without considering how they perform, what
- (15) their costs may or may not be, or how accurate
- (16) their reporting of customer lists may be.
- (17) Indeed, CETC funding is growing far faster
- (18) than the funding for rural ILECs. From 2002
- (19) to 2005, rural ILEC high-cost loop funding is
- (20) projected to grow approximately \$22 million
- (21) while CETC funding is projected to grow five
- (22) times that amount, or \$110 million dollars.
- (23) Many rural ILECs are actually experiencing
- (24) declines in USF funding today in 2004, and are
- (25) projected to experience even larger declines

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- (1) in support in 2005. Considering the fact that
- (2) ILEC funding is already capped, the best way
- (3) that the FCC could control fund growth would
- (4) be to simply require CETCs to justify their
- (5) receipt of these funds.
- (6) The Joint Board should also recommend
- (7) changes to the method of calculating the
- (8) support for acquired rural exchanges. Today's
- (9) rule creates disincentives to investment in
- (10) these acquired exchanges. When carriers
- (11) acquire rural exchanges, the
- (12) telecommunications plant in these exchanges
- (13) typically it's neglected and requires
- (14) immediate investment to meet minimal service
- (15) standards, let alone to allow provision of
- (16) advanced telecommunications capabilities. The
- (17) current safety valve rules actually provide an
- (18) incentive for carriers to delay by a year or
- (19) more expenditures that would improve service
- (20) for these rural customers. If the FCC wishes
- (21) to encourage carriers to make needed repairs and
- (22) improvements to these exchanges, the FCC rules
- (23) should be changed.
- (24) To alleviate these problems, ITTA
- (25) proposes that acquiring carriers be eligible

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- (1) for support immediately following the
- (2) acquisition of the exchanges, and that the FCC
- (3) should measure the baseline cost-per-loop in
- (4) an acquired exchange on the cost at the time
- (5) of acquisition in order to most accurately
- (6) show the increased investment.
- (7) In closing, ITTA reiterates that the
- (8) continued disbursement of universal service
- (9) funds to CETCs as a factor of carriers-of-
- (10) last-resort costs and a billing address
- (11) customer list is inappropriate and should be
- (12) discontinued. CETCs should receive universal
- (13) service support based on their own costs. It
- (14) is the only means of providing accountability
- (15) needed to ensure that universal service funds
- (16) are efficiently used to accomplish the
- (17) purposes of the Act.
- (18) Thank you.
- (19) COMMISSIONER ABERNATHY: Thank you,
- (20) Mr. Cole.
- (21) Now, we'll hear from Mr. Gene
- (22) Johnson, who is with Fairpoint Communications.
- (23) MR. JOHNSON: Thank you, Commissioner
- (24) Abernathy. You may have remembered that last
- (25) time I appeared before the en banc hearing and

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- (1) you had a clock in front of us. So, therefore
- (2) I have written my statement out to make sure I
- (3) don't go over three minutes.
- (4) I'm Gene Johnson, Chairman and CEO of
- (5) Fairpoint Communications, and we're a holding
- (6) company for rural ILECs operating in 16
- (7) states. Fairpoint's average study area has
- (8) just 8,500 access lines, and many of these
- (9) areas are very costly to serve. Without the
- (10) cost recovery Fairpoint obtains through
- (11) universal service support, we would literally
- (12) be unable to provide these customers with
- (13) affordable, high-quality service. This
- (14) morning - or this afternoon, I'm here on
- (15) behalf of OPASTCO and its 580 rural telephone
- (16) company members, many of which face operating
- (17) challenges similar to ours.
- (18) You may recall that last year in
- (19) Denver I participated on a panel concerning
- (20) the very same subject we're here to discuss,
- (21) the basis of support for competitive ETCs. It
- (22) seems like it's been a lifetime. Over the
- (23) past six quarters since I was last before you,
- (24) the projected support for CETCs in rural
- (25) service areas has increased by something like

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- (1) \$60 million. It represents 80 percent of the
- (2) total growth in the rural high-cost program
- (3) over that same two-year-time period. It's
- (4) clear that the support going to CETCs is
- (5) driving the rapid growth of the high-cost
- (6) program and placing its future viability at
- (7) great risk.
- (8) OPASTCO continues to believe that the
- (9) best way to address this problem is to base
- (10) support for CETCs in rural areas on their own
- (11) embedded costs. This would introduce the same
- (12) rationality and accountability into the system
- (13) for these carriers that already exists in the
- (14) mechanisms for rural ILECs. Moreover, it
- (15) would help to sustain the high-cost program in
- (16) a way that provides every ETC with sufficient
- (17) support and continues to achieve the universal
- (18) service objectives of the '96 Act.
- (19) OPASTCO recommends that the joint
- (20) board or FCC hold industry workshops to
- (21) develop charts of accounts for CETCs in each
- (22) industry segment that will be used for cost
- (23) reporting purposes. Although the types of
- (24) costs reported by wireless ETCs will obviously
- (25) differ from those reported by LECs, there

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- (1) should still be cost reporting parity between
- (2) the ILECs and the CETCs.
- (3) During the period of time when
- (4) accounting rules are being developed, we
- (5) recommend the adoption of the interim wireless
- (6) safe harbor plan that was filed by OPASTCO,
- (7) RICA, and the RTG in the portability
- (8) proceeding. Under that plan, wireless CETCs
- (9) would receive a safe harbor percentage of the
- (10) rural ILEC's per-line support with the
- (11) specific percentage based on the size of the
- (12) wireless carrier. Again, this plan is
- (13) intended strictly as an interim measure that
- (14) would sunset after the FCC adopted
- (15) cost-reporting rules for CETCs.
- (16) In closing, the current portability
- (17) rules have placed the sustainability of the
- (18) high-cost program in serious jeopardy and
- (19) change should not be delayed any longer. It
- (20) seems almost too obvious to say, but the
- (21) high-cost program should only provide support
- (22) to carriers that can actually demonstrate that
- (23) they have high costs. The system needs to be
- (24) accountable to the ratepayers nationwide, the
- (25) consumers, who ultimately fund it.

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- (1) Thank you for inviting me to
- (2) participate in the hearing today. I'd be
- (3) happy to answer any questions you may have.
- (4) COMMISSIONER ABERNATHY: Thank you
- (5) much, Mr. Johnson.
- (6) And now we'll hear from Denise
- (7) Parrish who is with the Wyoming Office of
- (8) Consumer Advocate.
- (9) Thank you, Ms. Parrish.
- (10) MS. PARRISH: Thank you. I
- (11) appreciate the opportunity to be here, not
- (12) only on behalf of Wyoming Office of Consumer
- (13) Advocate, but also as a representative of
- (14) NASUCA.
- (15) I'd like to begin as I did in my
- (16) written statement by reminding you of the
- (17) overarching principals that you need to
- (18) balance. And while I know that you know these
- (19) principals, they're not always discussed in
- (20) the -- to the extent that I think that the
- (21) balance requires.
- (22) For instance, there's been a lot of
- (23) talk about the sustainability of the fund, but
- (24) there has been very little mention about
- (25) affordability. And we think that

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- (1) affordability is one of the key items that
- (2) should override your decision making and be
- (3) part of the balance here, and it doesn't get
- (4) discussed to the same degree that many of the
- (5) other principles in 254 get discussed.
- (6) Similarly, access to quality services
- (7) does not get the same amount of discussion
- (8) that access to the fund gets. There was on
- (9) the first panel discussion about who should be
- (10) able to access the fund, but without the
- (11) reminder that the whole purpose of accessing
- (12) the fund is to maintain access throughout the
- (13) nation. We have a wonderful, ubiquitous
- (14) quality network in America, and the whole
- (15) purpose of the fund is to maintain that, not
- (16) to develop competitors, not to develop
- (17) competition, but to, in spite of or in
- (18) conjunction with competition, to maintain the
- (19) network that we have. So, we hope that you'll
- (20) keep that in mind.
- (21) Similarly, the comparability issue,
- (22) we remind you that that ought to be one of the
- (23) key items that goes to the end test. Whatever
- (24) decision that you make as a result of this
- (25) hearing and many other hearings and

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- (1) discussions that you'll have, it ought to be
- (2) the final test of whether your decision is the
- (3) right one should be the comparability of
- (4) rates. Even if that means that you do
- (5) something similar to what you did for the
- (6) non-rurals, which was, if all else fails, a
- (7) state can come in and ask for supplemental
- (8) funding just to show that the comparability
- (9) test is being met.
- (10) So, the NASUCA comments in this
- (11) proceeding go to trying to balance all of
- (12) those issues as well as trying to rationalize
- (13) the fund. We understand that there's a
- (14) sustainability problem, and we understand that
- (15) there's a -- are competitive issues. We're
- (16) not against competition. We're not trying to
- (17) create discrimination for or against the
- (18) competitors, but we believe that the fund
- (19) needs to be rationalized.
- (20) And in that regard, relative to the
- (21) two issues that I've been asked to speak to,
- (22) the specific comments suggest that competitive
- (23) ETCs should have support based on their own
- (24) costs but capped at the level of support
- (25) provided to the incumbents. We -- I won't go

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- (1) into it now. You have the written statements
- (2) as to why we believe that it's both a fair
- (3) competitive method as well as a
- (4) nondiscriminatory method. We also believe
- (5) that this is the way to remind ourselves that
- (6) the incumbents do have carrier-of-last-resort
- (7) responsibilities at this point,
- (8) responsibilities that have not been picked up
- (9) by many of the CETCs.
- (10) As to the second issue, the issue of
- (11) dealing with bought and purchased exchanges,
- (12) we have not taken a formal position at this
- (13) point. We expect to do so in our reply
- (14) comments. But again, the overarching concern
- (15) should be to not provide incentives to make
- (16) purchases, but at the same time to recognize
- (17) that the buyers have done some marvelous
- (18) things in rural areas once those exchanges
- (19) have been purchased.
- (20) And with that, I would look forward
- (21) to your questions.
- (22) COMMISSIONER ABERNATHY: Thank you
- (23) very much, Ms. Parrish.
- (24) And now we will turn to Dr. Lehman
- (25) from Alaska Pacific University.

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- (1) DR. LEHMAN: Thank you. We hear a
- (2) lot of the phrase, competitive neutrality,
- (3) invoked as reasons why we need the equal
- (4) support rule. And there is nothing in
- (5) economic theory. You won't find the phrase
- (6) competitive neutrality. What you will find,
- (7) the closest concept is the idea of
- (8) discrimination and nondiscrimination. And
- (9) discrimination takes place when equals are
- (10) treated unequally or whenever unequals are
- (11) treated equally. And that last phrase is what
- (12) I think applies here.
- (13) Wireless and wireline technologies
- (14) are just different. They're different in a
- (15) litany of technological, regulatory, and
- (16) market ways, many of which appear in lots of
- (17) the testimony you've been provided with. And
- (18) I'd add one to the list that came from the
- (19) previous panel. It's very appealing, the idea
- (20) of eventually moving to system of consumer
- (21) subsidies where the consumer gets the subsidy,
- (22) the ultimate person we're trying to help. But
- (23) that is not technology neutral.
- (24) In a wireless world that works fine
- (25) to give the customer the subsidy because

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- (1) wireless networks are not built to serve
- (2) particular addresses and customers. They're
- (3) served to - they're built to serve particular
- (4) areas that customers may travel through.
- (5) Wireline technology is geared to specific
- (6) locations. And if you give the customers the
- (7) subsidy, you run into the problem that one
- (8) person may want to use their subsidy for
- (9) wireline and the next house down the road may
- (10) not. But you still have to build the network
- (11) down that road in any case. So, there are
- (12) some important differences in technology that
- (13) need to be recognized, and you can't do it
- (14) through the equal support rule.
- (15) I don't think it is efficient to try
- (16) to equalize wireless and wireline services.
- (17) One of the wonderful things about them is they
- (18) are so different. So, rather than try to say
- (19) we're going to have the same standards and
- (20) they all have to look the same - they don't
- (21) look the same. And I think the principle of
- (22) competitive neutrality, or from the
- (23) discrimination concept, would be that they
- (24) should be treated differently. And by
- (25) treating them differently, I mean that the

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- (1) wireless costs should determine wireless
- (2) support. I have not seen a demonstration that
- (3) wireless carriers in high-cost areas are, in
- (4) fact, the same areas as high-cost areas for
- (5) the incumbents. In fact, I think that quite
- (6) possibly some of the urban areas are, in fact,
- (7) higher cost areas for wireless carriers than
- (8) rural areas. So, I think we need really need
- (9) to have to a demonstration of where the costs
- (10) are a barrier to achieving comparable services
- (11) at comparable rates. And then that should be
- (12) the basis for support.
- (13) I think we should also not mistake
- (14) the intense competition for revenues and
- (15) minutes for competition between the services.
- (16) There is relatively little competition
- (17) directly between wireless and wireline service
- (18) for access. And, in fact, they are
- (19) complementary to a great extent. In answer to
- (20) the point raised about whether wireless
- (21) carriers take as much out of the funds as they
- (22) put into it, one the benefits wireless
- (23) consumers get is the ability to reach anybody
- (24) on a wireline phone by using their wireless
- (25) service. And that was achieved largely

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- (1) through our universal service policies that
- (2) built out the wireline network to reach
- (3) everyone. So, they are benefitting even if
- (4) they are not getting the same number of
- (5) dollars out of the fund as they put in.
- (6) And, finally, I'd make two notes.
- (7) One of them is that to the extent that there
- (8) are allegations that the rural incumbents are
- (9) inefficient, grossly inefficient, to me, that
- (10) undermines any last reason why we should have
- (11) equal support. I mean, presumably, if money
- (12) is being wasted by the incumbents, why does a
- (13) wireless carrier need the same amount of waste
- (14) in order to compete? They simply don't have
- (15) to waste it to begin with.
- (16) And the other point I'd make is that
- (17) there is a sense of competitive sense of
- (18) neutrality that is important and that has
- (19) already come to pass. And that is the
- (20) competitive neutrality among wireless carriers
- (21) themselves. We have a rural area in Alaska
- (22) now where there are three wireless ETCs along
- (23) with the wireline ETC. And it seems to me if
- (24) you're going to provide high-cost support to
- (25) one wireless carrier, you pretty much have to

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- (1) provide it to all, because they are competing
- (2) directly for the same customers. And that, I
- (3) think, enlarges the fund considerably.
- (4) COMMISSIONER ABERNATHY: Thank you
- (5) very much.
- (6) Now, we'll hear from Dr. Lee Selwyn.
- (7) DR. SELWYN: Thank you,
- (8) Commissioners. Glad to be back on this panel.
- (9) I appreciate the opportunity to speak with you
- (10) on this subject.
- (11) I was reviewing the statutory
- (12) language and the statute that we've been
- (13) talking about. The statutory language, let me
- (14) just read it again: that customers in rural
- (15) high-cost areas shall have access to
- (16) telecommunications and information services
- (17) that are reasonably comparable to those
- (18) services provided in urban areas.
- (19) That to me implies that the policy
- (20) that the Commission has been pursuing for
- (21) 30-some-odd-years now of encouraging the
- (22) development of competition, the policy that
- (23) was adopted by Congress in the '86 Act, in
- (24) looking to competition to support the
- (25) telecommunications demands of this country,

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- (1) cannot be distinguished between non-rural and
- (2) rural areas. If you develop and maintain a
- (3) support system that in some manner limits the
- (4) opportunities for consumers to benefit from
- (5) competition in rural areas, then the statutory
- (6) mandate is not being fulfilled.
- (7) Now, that said, let me speak about a
- (8) couple of the specifics that are being
- (9) discussed. First of all, let's talk for a
- (10) minute about the equal support rule. My
- (11) belief is that the equal support rule is
- (12) absolutely essential to assure that consumers
- (13) are confronted with efficient choices between
- (14) and among various providers and various
- (15) technologies.
- (16) Now, I actually find myself in
- (17) agreement up to a point, which perhaps is
- (18) unusual, with Dr. Lehman, as to the idea of
- (19) carrying inefficiencies over from rural ILECs
- (20) into CETCs. And the solution to that is to
- (21) use as the basis for support the cost level of
- (22) the most efficient provider. So, if the CETC
- (23) is able to do it cheaper than the rural
- (24) carrier - or the rural ILEC than it is the
- (25) CETC's cost and not the rural ILEC's costs

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- (1) that provide the basis for funding. So, we
- (2) eliminate your concern about inefficiency and
- (3) we eliminate my concern about a lack of
- (4) competitive neutrality.
- (5) CETCs are carriers-of-last-resort.
- (6) There is no proposal out there that suggests
- (7) that any competitor that happens to wander
- (8) into a particular rural community is
- (9) immediately entitled to high-cost support.
- (10) Carriers have to comply with the requirements
- (11) of certification as ETCs, which includes a
- (12) commitment to serve their communities
- (13) ubiquitously. If multiple CETCs and multiple
- (14) wireless carriers are certified as ETCs, that
- (15) doesn't necessarily expand the size of the
- (16) fund since the funding would be based upon the
- (17) number of lines provided by each carrier. So,
- (18) if three carriers divide up the wireless
- (19) segment of the market, then the total draw
- (20) would be essentially the same.
- (21) If you provide differential support
- (22) based upon each carrier's costs or each
- (23) technology's cost, you distort consumer
- (24) choice, you distort investment choice. You
- (25) discourage entry by lower cost - inherently

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- (1) lower cost providers who are being forced to
- (2) compete with subsidized higher-cost companies.
- (3) That denies those customers in those
- (4) communities access to competitive service.
- (5) Finally, on the issue of whether or
- (6) not wireless and wireline are the same, first
- (7) of all, the Commission, I think, needs to be
- (8) consistent. If intermodal competition is to
- (9) be viewed by the Commission as a general
- (10) matter, as demonstrating the presence of
- (11) competition in a market – and certainly this
- (12) has been raised in other areas in section 271
- (13) cases and the triennial review among other
- (14) places, in broadband proceedings – then you
- (15) can't simply decide that oh, gee, in rural
- (16) areas it's a different story.
- (17) Now, are they perfect substitutes?
- (18) Absolutely not. No question about it. But
- (19) they are economic substitutes and there is a
- (20) price at which a consumer – a price
- (21) differential at which a consumer may be
- (22) indifferent as between one or the other. If a
- (23) price of a wireline service is \$100 a month
- (24) and then the price of a wireless service is
- (25) \$20 a month or \$30 month, then there will be

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- (1) consumers who while preferring wireline
- (2) service might decide at that point that the
- (3) preference isn't worth the price difference.
- (4) And that's exactly the kind choices we want
- (5) consumers – we want to encourage consumers to
- (6) make. If we distort those choices by
- (7) subsidizing wireline service to the tune
- (8) of the difference between 100 and 30, that choice is
- (9) eliminated.
- (10) No one is saying they are the same
- (11) service, but they are at a certain level
- (12) economic substitutes. And if intermodal
- (13) competition is going to be a focus of
- (14) Commission policy, you can't change the rules,
- (15) as it were, in rural areas. It seems to me
- (16) that rural, in order to establish a level
- (17) playing field, to encourage efficiency, to
- (18) eliminate the various perverse incentives in
- (19) the present system that looking to provide an
- (20) equal level of support for carriers based upon
- (21) the most efficient carrier's costs is a
- (22) reasonable policy approach. Thank you.
- (23) COMMISSIONER ABERNATHY: Thank you
- (24) very much, Dr. Selwyn.
- (25) And now we'll move to the Q and A, we

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- (1) will start with Commissioner Martin.
- (2) COMMISSIONER MARTIN: Mr. Johnson, I
- (3) heard you state a – I think I heard you state
- (4) a fact that I wanted to follow up on. You
- (5) said that 80 percent of the growth in the
- (6) high-cost fund was not a result of CTEC
- (7) growth. Is that – could you –
- (8) MR. JOHNSON: That's correct. If you
- (9) remember when we re-balanced rates, moved
- (10) things from implicit cost to explicit cost,
- (11) there was a dramatic increase in the high-cost
- (12) fund. Since that was completed, however,
- (13) something like 83 percent of the growth has
- (14) been from CETCs. The fact is that for the
- (15) last, I think, two years the total growth in
- (16) the high-cost fund from incumbents is
- (17) something like 3.1 percent.
- (18) COMMISSIONER MARTIN: And no one on
- (19) the panel disagrees with that?
- (20) MR. JOHNSON: That's based USAC's
- (21) numbers.
- (22) MR. COLE: I agree. The numbers that
- (23) I used were 22 million and 110. And that is
- (24) from 2003 to 2005 the projection by USAC. And
- (25) some of the numbers have been used in the

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- (1) earlier time period. But if look at the
- (2) growth between 2003 and 2005 projected, using
- (3) USAC numbers, you look at the high-cost loop
- (4) fund, it is basically the same percentage. 83
- (5) percent is the increase driven by CETCs.
- (6) MR. BERGS: I have to plead partial
- (7) ignorance and then a little disagreement.
- (8) I've got to admit, I don't know if we look at
- (9) only the last two years. But if we looked at
- (10) 2000 and 2003, 87 percent of the growth in the
- (11) fund was attributable to ILECs.
- (12) MR. JOHNSON: That's correct. As I
- (13) said, that was the period of time when we
- (14) re-balanced rates and moved things
- (15) specifically into the ICLS rates.
- (16) COMMISSIONER MARTIN: And then my
- (17) next question was for Dr. Selwyn. I agree
- (18) with you that the Commission ultimately has to
- (19) be consistent in its approach on intermodal
- (20) competition. I mean, that's an important
- (21) point as we're trying to figure out how we're
- (22) approaching this. And you're right, that has
- (23) been raised in a series of proceeding
- (24) including the TRO.
- (25) But it has also been raised in some

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(1) of the mergers that we've had in front us  
 (2) recently. And in that context, I think we've  
 (3) actually been more skeptical in our  
 (4) conclusions about the current substitutability  
 (5) of wireless per wireline service. So, does  
 (6) that have an impact in your comments today?  
 (7) DR. SELWYN: In fairness I, myself,  
 (8) have been skeptical about the  
 (9) substitutability. So that nobody goes – and  
 (10) I'm sure there will be people here who would  
 (11) go and try to dig out my prior testimony and  
 (12) say, see, he's being inconsistent. As I said,  
 (13) they are not perfect substitutes. But at a  
 (14) certain point they are economic substitutes.  
 (15) I think that in particular in rural  
 (16) areas where we are confronting unusually –  
 (17) what are alleged, at least, to be unusually  
 (18) high costs for wireline services, wireless may  
 (19) be a more viable technical economic substitute  
 (20) than in other areas. And we certainly want to  
 (21) encourage the exploitation of that technology  
 (22) if, in fact, that is true.  
 (23) And then the last thing we should be  
 (24) doing is distorting that or discouraging  
 (25) investment. So, I absolutely agree that we

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(1) are – I don't believe they are perfect  
 (2) substitutes. I don't believe the market  
 (3) has – in the mainstream market, despite  
 (4) attempts by certain incumbent LECs to portray  
 (5) it otherwise, I don't think the mainstream  
 (6) market has made that demonstration. But in  
 (7) particular in rural areas, the potential  
 (8) for – as an alternative, as a lower cost  
 (9) alternative is real and certainly should not  
 (10) be distorted. And that's all I'm saying.  
 (11) COMMISSIONER MARTIN: Thank you.  
 (12) COMMISSIONER ABERNATHY: Commissioner  
 (13) Dunleavy.  
 (14) COMMISSIONER DUNLEAVY: Thank you,  
 (15) Madam Chair.  
 (16) Ms. Parrish, if we base the CETCs  
 (17) support on its own costs, are we assuming or  
 (18) just hoping those costs are lower than the  
 (19) ILEC's costs?  
 (20) MS. PARRISH: Well, our proposal to  
 (21) base is its own costs up to the amount of  
 (22) the ILEC costs. So, it would – the support  
 (23) would also always be lower than or equal to  
 (24) that of the ILEC. I don't think you can  
 (25) assume that it's always going to be higher or

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(1) lower. It's that it's going to depend on the  
 (2) area; it's going to depend upon the density  
 (3) and the build-out. It's that they have some  
 (4) of the same density issues that the wireline  
 (5) carriers do.  
 (6) And, in fact, if you – the other  
 (7) concern I have is that some of the suggestions  
 (8) that have been made that we base it on the  
 (9) model of the lower of the costs, whether it's  
 (10) wireline or wireless, is that I think that  
 (11) again goes to the issue of build-out and  
 (12) assuring that the build-out built in the model  
 (13) is sufficient to actually serve the entire  
 (14) service area. Because if you use the actual  
 (15) construction that's out there now, you might  
 (16) not actually be supporting enough coverage  
 (17) based on some of the wireline model  
 (18) descriptions.  
 (19) COMMISSIONER DUNLEAVY: And one  
 (20) little follow-up. When you're talking about  
 (21) support of customer lines, you're talking  
 (22) about the primary line or all lines?  
 (23) MS. PARRISH: Either way. I think –  
 (24) because the model's generally built to a  
 (25) household, and the addition of one line or two

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(1) lines in terms of the cost models doesn't make  
 (2) very much difference. Now, what we're seeing  
 (3) in terms of the current system where you  
 (4) have – it's based strictly on the number of  
 (5) lines and the ported amount from the incumbent  
 (6) is you're seeing three and four lines in a  
 (7) household being supported, and that clearly  
 (8) doesn't have the cost basis because you don't  
 (9) have four times the cost to serve a household  
 (10) as you do for serving one. I mean, the math  
 (11) doesn't work. You don't multiply by four for  
 (12) every line into that same household.  
 (13) COMMISSIONER DUNLEAVY: That being  
 (14) the case, how do we reconcile that? Do we  
 (15) need Mr. Johnson's workshops and teach people  
 (16) how to do that?  
 (17) MR. JOHNSON: Well, I think you do.  
 (18) I think if you're going to take public money  
 (19) and if you have an obligation to provide a  
 (20) level of service that says that it's good  
 (21) public policy – that you get public money to  
 (22) do that, then I think we have to develop a  
 (23) methodology for insisting that people justify  
 (24) what they're doing with the public money. If  
 (25) that means we have to develop workshops as a



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- (1) way of doing it, put the safe harbor plan in
- (2) place that we recommended, first to allow that
- (3) to happen so we can kind of stop this thing
- (4) from growing any larger right now, yes. This
- (5) is not easy, but it's doable. And it's a lot
- (6) easier than a lot of things I have to deal
- (7) with every day.
- (8) COMMISSIONER DUNLEAVY: Go ahead, Mr.
- (9) Bergs.
- (10) MR. BERGS: I would just add that
- (11) some of the proposals that you've heard today
- (12) are that we ultimately move the support to an
- (13) individual. In that environment that problem
- (14) is solved, especially when the lowest cost
- (15) provider sets the basis for the per customer
- (16) support. At that point, you aren't concerned
- (17) about overfunding either of the two carriers
- (18) that's available.
- (19) And I'd just add -- and this kind of
- (20) ties into this question as well as one of your
- (21) earlier ones -- that even assuming that the
- (22) growth in the fund has been of a result of the
- (23) competitive ETCs in the last year, to distort
- (24) that number, ultimately -- again, a customer
- (25) is only going to have so many connections.

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- (1) We're not going to end up in an environment
- (2) where there is an unlimited number connections
- (3) for every person in those high-cost areas.
- (4) So, there's an inherit cap with the current
- (5) mechanism if we base it on per lines. By
- (6) allowing that, the only way to fund growth is
- (7) in that environment. Once we have established
- (8) a competitive environment and are funding the
- (9) most efficient provider, is it more people
- (10) move to those rural areas? I think most of us
- (11) would agree that might be a good thing.
- (12) COMMISSIONER DUNLEAVY: Does anyone
- (13) have a specific idea of how we verify that?
- (14) MS. PARRISH: Well, I mean, I can't
- (15) lay out the details for you, but I think that
- (16) one of our ideas is you have to look at
- (17) affordability and comparability. And
- (18) comparability, we've started looking at on a
- (19) state level where you might have a \$40
- (20) cellular phone bill that includes lots of
- (21) bells and whistles. And to try and get it
- (22) down to the comparable price of plain, old
- (23) dial tone, you, you know, take \$3 off for call
- (24) waiting and \$5 off for voice mail and so
- (25) forth. And then you can start doing an apples

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- (1) to apples comparison of at least what the
- (2) prices of those services are. And I think
- (3) that you have to assume that there's some
- (4) relationship between price and cost.
- (5) COMMISSIONER ABERNATHY: With regard
- (6) to the growth of the fund being related to the
- (7) CETCs, of course, it is because they didn't
- (8) exist before. So, that's no great surprise.
- (9) It doesn't really concern me, because they
- (10) didn't exist before and so it would make sense
- (11) that as we decided to embrace competition for
- (12) rural America that in fact that would drive up
- (13) the size of the fund.
- (14) The real question for me is, are we
- (15) directing the funds in the right way at the
- (16) right amounts? And as Ms. Parrish said
- (17) earlier, I think instead of focusing on
- (18) carriers with high costs, I think our focus
- (19) should be on consumers in high-cost areas.
- (20) And in some respects I think we would want to
- (21) embrace lower cost technology, not embrace
- (22) higher cost technology.
- (23) And so, that leads to me see if
- (24) anyone wants to comment on one of the
- (25) proposals that's been out there, which is you

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- (1) basically seek out a bid to serve that area
- (2) and the one with the lowest cost bid -- this
- (3) is what a number of developing countries are
- (4) doing -- the one that comes in and says, I
- (5) will serve this for the least amount of the
- (6) subsidy, that's then what any provider gets
- (7) who serves that area.
- (8) I've heard concerns about that, that,
- (9) well, what about the folks who entered under
- (10) the old regime and they're there and they've
- (11) got embedded costs. But I'd like to hear some
- (12) debate around that proposal.
- (13) DR. LEHMAN: I'm not sure what people
- (14) would be choosing between. I mean, what kind
- (15) of service are they going to get? They like
- (16) their cell phone. They use it a lot of the
- (17) time. They can't use it in their rural
- (18) residence because the service doesn't reach
- (19) there. So, when you face them with this
- (20) choice and take the lowest bid, how are you
- (21) going to educate them as to exactly what it is
- (22) that they're getting for that choice?
- (23) COMMISSIONER ABERNATHY: Well, you
- (24) have to have certain criteria that any vendor
- (25) would have to meet. And we'd certainly

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- (1) addressed that, I think, at the FCC and in the  
 (2) Joint Board when we said, if you want to be an  
 (3) ETC, you have to have carrier-of-last-resort,  
 (4) you'd have to have certain obligations. So, I  
 (5) think you - you'd have certain criteria that  
 (6) would have to be met.  
 (7) So, let's assume for a minute that  
 (8) the technology - let's say it's not wireless,  
 (9) it's some other technology. Assume that it  
 (10) could do that. Is this overall approach  
 (11) reasonable?  
 (12) DR. LEHMAN: The house I used to live  
 (13) in in a rural area, you could not have gotten  
 (14) a bid from other than the existing wireline  
 (15) provider if you required that they provide  
 (16) service to my home. Now, that's not the way  
 (17) the current rules read. If you're going to  
 (18) write rules that say you must be able to  
 (19) provide this level of quality of service to  
 (20) where the person's residence is and it must  
 (21) work X percent of the -  
 (22) COMMISSIONER ABERNATHY: ILECs today  
 (23) only have to serve based upon reasonable  
 (24) request. Even the incumbents don't have to  
 (25) serve anyone. So, you'd have the same test

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- (1) for the new provider.  
 (2) Gene, do you want to talk about this  
 (3) or Scott?  
 (4) MR. JOHNSON: Well, I'm just thinking  
 (5) about we have to be careful that we don't  
 (6) dismantle this marvelous telephone system we  
 (7) have in this country to do that. So, I'm a  
 (8) potential competitor and I come in say, you  
 (9) know, put out the bid in the area that you  
 (10) live in, your study area, I guess, that I'm  
 (11) going to bid to do this. And so now, maybe I  
 (12) already have a network in place; maybe I  
 (13) don't. But to be sure, the network probably  
 (14) is not as good as the existing network that's  
 (15) there. If that was true, we'd be losing  
 (16) customers right and left to wireless carriers  
 (17) that we're not. And I think that's probably  
 (18) true in general in rural communities. It's  
 (19) not like in urban communities where you're  
 (20) losing customers to wireless carriers. It's a  
 (21) secondary service not replacing the primary  
 (22) service.  
 (23) So, the concern I would have is as  
 (24) they build this out, when do you cut the - I  
 (25) have a lot of concerns, obviously - but when

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- (1) do you cut the funding out to me? I've got  
 (2) embedded costs. I've got this compact I've  
 (3) entered into with regulators that's 100 years  
 (4) or more old, certainly goes back into the  
 (5) '30s. And all of a sudden you're going to  
 (6) pull this compact out and say, we're just  
 (7) going to leave you stranded. Well, what  
 (8) happens to my stranded investment when you do  
 (9) that in these variable areas?  
 (10) And at the end of the day, more  
 (11) importantly, what happens to the rural  
 (12) customers when the company that won the bid  
 (13) doesn't perform? You see construction  
 (14) projects every day that are taken over by a  
 (15) bonding company at great delay and cost many  
 (16) times to the owner because the low cost bidder  
 (17) just was not able to perform.  
 (18) MR. BERGS: Actually, I agree with a  
 (19) portion of what Mr. Johnson said. I think  
 (20) that in a bid proposal what the Commission  
 (21) would in essence be doing is picking a point  
 (22) in time and identifying the most efficient  
 (23) carrier at that point in time. Maybe most  
 (24) efficient isn't even the right  
 (25) characterization. The provider who will

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- (1) generate the most value to the customer at  
 (2) that point in time.  
 (3) And today, I believe in a lot of our  
 (4) areas, we are that carrier. It may be a  
 (5) slightly biased opinion, I admit. But I do  
 (6) expect that at some point in time another  
 (7) technology, either provided by us or another  
 (8) carrier is going to displace CMRS technology as  
 (9) the most efficient. I'm afraid the bid  
 (10) proposal would limit the ability of new  
 (11) technologies to be easily entered into those  
 (12) high-cost areas.  
 (13) However, if competition under the  
 (14) current mechanism is in place and portability  
 (15) is in place, customers will choose the most  
 (16) high-value service available in that market,  
 (17) thereby alleviating the need for the bid  
 (18) proposal. It will target support to the most  
 (19) high-value provider.  
 (20) COMMISSIONER ABERNATHY: Okay. And  
 (21) then one quick follow-up is if - let's assume  
 (22) for a second this approach can't work because  
 (23) of the distortions and you've got the  
 (24) incumbents with other prices and we said, all  
 (25) right, we're not going to try this bid

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- (1) proposal. We're going to continue to have  
 (2) ETCs, but we're going to ask them to somehow  
 (3) justify their support through some kind of  
 (4) proceeding. If we came up with a new way of  
 (5) justifying support, wouldn't it make sense  
 (6) then to apply it to all the carriers who are  
 (7) serving that area if you came up with a better  
 (8) way? That was our first panel. It was really  
 (9) how you figure out the amount of support. It  
 (10) sounds to me like it might be whatever  
 (11) methodology you come up with, you would apply  
 (12) it to both the new guys coming in as well as  
 (13) the incumbents. Does that make sense?  
 (14) MR. JOHNSON: I think that's what we  
 (15) said in our filing is that we think  
 (16) essentially what is good for the goose is good  
 (17) for the gander. We believe the right way to  
 (18) do that right now is based on embedded costs,  
 (19) so we would suggest that the CETCs submit  
 (20) appropriate kinds cost models or cost studies  
 (21) of some kind, perhaps if there are average schedule  
 (22) type costs that could be developed in order to  
 (23) do that. We absolutely agree with that.  
 (24) MR. COLE: I guess one of the things  
 (25) Mr. Bergs talked about, I think you mentioned

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- (1) also in the start of yours as far as not  
 (2) focusing on the company, focus on the people  
 (3) involved. And it may be a given, but just a  
 (4) moment to visit. I think it is important. I  
 (5) understand the purpose of the universal  
 (6) service fund is - what it was meant to do  
 (7) versus what we may be doing now.  
 (8) And I just happened to think while I  
 (9) was sitting in the back a while ago. I went  
 (10) to my parents' this weekend with my  
 (11) seven-year-old, just to take her there. And  
 (12) they live in a very rural area, much of what  
 (13) we're talking about. It's actually a  
 (14) CenturyTel area. I believe it does receive  
 (15) USF support. I went there and it's easier to  
 (16) visit my parents, and they live across the  
 (17) street from my grandparents, and my sister  
 (18) lives next door. And they live in several  
 (19) little houses right at the top of the hill.  
 (20) And they're probably the only houses within a  
 (21) mile of there. And you go past there about 50  
 (22) feet and the road stops and you have dirt.  
 (23) And then there's about one house per mile  
 (24) after that.  
 (25) But I think we talked about what has

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- (1) changed since then. I remember when I was a  
 (2) seven-year-old and went up there and my  
 (3) grandparents were across the street. That was  
 (4) my first introduction to phone service. And I  
 (5) learned real quickly when the phone rang, and  
 (6) their house was no bigger than this area up  
 (7) here, that there was two different rings.  
 (8) When one of them rang, it was your  
 (9) grandparents and you answered the phone and  
 (10) said, hello. And when it was the other ring,  
 (11) it was her mother-in-law, my  
 (12) great-grandparents across the street. And  
 (13) when it rang, you just picked up real quietly  
 (14) and didn't say anything and handed it to your  
 (15) grandmother. That was my introduction to  
 (16) telephone service and party lines and what it  
 (17) is.  
 (18) And then I go there this weekend and,  
 (19) you know, we've long ago done away with party  
 (20) lines. We have single party, all digital  
 (21) service in that area. My father has his  
 (22) Internet hooked up to our telco service and  
 (23) has that. I look at the things that universal  
 (24) service means for that community. They now  
 (25) have one-party service. They really couldn't

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- (1) have had that without that. They now have  
 (2) 9-1-1. The biggest challenge with 9-1-1 was  
 (3) not the technology, but it was coming up the a  
 (4) name for all the roads. So, we did that.  
 (5) And then we had an ice storm there five  
 (6) years ago. We were able to stay in touch,  
 (7) but they were out of electricity for five  
 (8) years (sic). So, those are the kinds of  
 (9) things I want to talk about when you think  
 (10) about universal service.  
 (11) At the same time, my father has a bag  
 (12) phone, a wireless phone that he's had for ten  
 (13) years. It's the same bag phone and I know I  
 (14) should have bought him one by now, but he's  
 (15) stuck on that bag phone. And so, he's had  
 (16) that same service for ten years. He can't  
 (17) really use it at home. He has to use it in  
 (18) the car between the old saw mill after the  
 (19) turn. He goes there and he can pick up  
 (20) service and between Monroe. But he could not  
 (21) use that as a substitute for his home.  
 (22) However - and that's where the  
 (23) struggle is because, again, assuming that  
 (24) there is a wireless ETC there, I'm not sure  
 (25) that it's not going to have the

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- (1) qualifications. I don't understand after a
- (2) telco made that investment, made those
- (3) commitments to that community, provided those
- (4) services, if they're getting \$10 or \$20 of USF
- (5) a month for that line, why should that bag
- (6) phone that has been in that car for ten
- (7) years - as far as I know, any towers had been
- (8) built in that time - should also receive the
- (9) same \$10 or \$20 a month?
- (10) COMMISSIONER ABERNATHY: I think I'm
- (11) going to stop now, because I do want to give
- (12) my colleagues time to ask questions. Thank
- (13) you.
- (14) COMMISSIONER NELSON: I do want to
- (15) welcome a former member of the Michigan
- (16) Commission staff, Ms. Parrish, who used to
- (17) work for us and did a great job many years
- (18) ago.
- (19) I want to focus on rule 305, which is
- (20) one of the issues that was teed up in this
- (21) proceeding. And I know, Mr. Cole, you
- (22) indicated you'd like to see the Commission
- (23) amend that rule. But would you agree with
- (24) Dr. Selwyn that the need for that rule goes
- (25) away if we redefine rural to look at the

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- (1) geography as opposed to the individual
- (2) characteristics of the carrier? And wouldn't
- (3) that also mean that perhaps we wouldn't be
- (4) getting premiums paid in the amounts they're
- (5) being now for new territories because the
- (6) acquiring carrier would be getting the same
- (7) level of support as the carrier that gave up
- (8) the territory?
- (9) MR. COLE: As far as Dr. Selwyn's
- (10) proposal, I'm not sure I understand the
- (11) complexities of it. But I will answer as far
- (12) as to the premiums. I think at the same time
- (13) there has been a not a lot of transactions in
- (14) the last couple, three years. And I think
- (15) that's a part of it. Again, are those
- (16) premiums still applicable for those parties
- (17) based upon current regulatory and cost
- (18) environment within rural telcos?
- (19) Again, I think the purpose of the
- (20) safety valve was to take a look at those
- (21) markets that were acquired and say, are they
- (22) the same level of service that we would like
- (23) to see those markets? Have they have received
- (24) the same attention that the urban areas have
- (25) received? And if not, is there any incentive

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- (1) or anything we can do where those customers
- (2) can get those same levels of service?
- (3) And I think that was the intent. I
- (4) think it's important to note that. I believe
- (5) as of this date, there has never been a dollar
- (6) disbursed under the safety valve program
- (7) because of this limitation. So, I think all
- (8) we're saying is that is the intent. And I
- (9) know in the properties we acquired we made
- (10) significant investments to upgrade not only
- (11) the loop and the plant, but also switching
- (12) facilities. And I believe our customers saw
- (13) definite improvements. And a lot of our
- (14) investments were made in that first year
- (15) because we felt it was so critical. And we
- (16) made commitments to local mayors, and we made
- (17) commitments to state regulators that we would
- (18) improve that service. And we did it
- (19) regardless of the fact that by spending those
- (20) dollar in the first year we were, in fact,
- (21) penalized because that set our base going
- (22) forward and precluded us from receiving the
- (23) same level of USF support.
- (24) COMMISSIONER NELSON: Dr. Selwyn?
- (25) DR. SELWYN: I want to make one brief

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- (1) observation. The reference was made to
- (2) switching. I find it really very interesting
- (3) that the rural carriers feel an entitlement to
- (4) support for switching. In the TRO the
- (5) Commission concluded that CLECs, many of which
- (6) are smaller and more geographically disbursed
- (7) than some of the larger small rural carriers,
- (8) are not impaired with respect to switching.
- (9) CLECs are expected to go out and use risk
- (10) capital and purchase switching equipment and
- (11) are not going to have access to switching UNEs
- (12) at forward-looking TELRIC prices because of
- (13) the nonimpairment finding.
- (14) There are relatively few serious
- (15) scale economies associated with switching that
- (16) would be that particularly impacted by rural
- (17) areas. CLECs have been confronting the
- (18) problem having to connect exchanges located
- (19) over communities - located over very broad
- (20) distances to a relatively small number of
- (21) switches. And the Commission has found that
- (22) that's an acceptable business model. And I am
- (23) concerned about the notion that the ILEC, the
- (24) rural ILECs feel that they have some specific
- (25) separate entitlement with respect to switching

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- (1) costs that are being denied, in effect, to  
 (2) other providers.  
 (3) MR. COLE: Just to clarify, I don't  
 (4) believe I made any statement that those  
 (5) switching costs should have been included in  
 (6) anything. I was only making that statement  
 (7) about us replacing switches because we had one  
 (8) state, the State of Wisconsin, as part of our  
 (9) acquisition. The Commission made it a  
 (10) requirement that we replace or that we  
 (11) provide - there were a number of them that  
 (12) were there, and we were specifically required  
 (13) to replace those switches as part of the  
 (14) acquisition.  
 (15) DR. SELWYN: But had rule 305 been  
 (16) amended as you were proposing, then the cost  
 (17) base would have been lower, and you would have  
 (18) potentially been able to receive some  
 (19) high-cost support based on that switching  
 (20) investment, if I understand correctly what the  
 (21) proposal is.  
 (22) MR. COLE: I don't know that I'm  
 (23) qualified to address that one.  
 (24) COMMISSIONER NELSON: Dr. Lehman.  
 (25) DR. LEHMAN: Your question about the

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- (1) serve high-cost areas. And they have not  
 (2) asked for a re-doing of the funds so that they  
 (3) get the same treatment as rural carriers. So,  
 (4) they're still willing to do that. And I think  
 (5) really the best we can practically achieve is  
 (6) to try to facilitate the transfer of exchanges  
 (7) from those carriers that now consider it sort  
 (8) of a burden to carry this along to carriers  
 (9) that are willing to invest in those exchanges  
 (10) and make the service better. And it doesn't  
 (11) require the fund going up by a factor of ten;  
 (12) it doesn't require some arbitrary reduction in  
 (13) costs that can't be actually achieved by rural  
 (14) carriers.  
 (15) COMMISSIONER NELSON: You would  
 (16) agree, though, that these carriers, you know,  
 (17) to be a burden for them, probably have a lower  
 (18) level of service than other rural carriers?  
 (19) DR. LEHMAN: I think in many cases  
 (20) they do, yes.  
 (21) COMMISSIONER DUNLEAVY: Dr. Selwyn.  
 (22) DR. SELWYN: I'm not sure that  
 (23) characterizing the large RBOCs, for example,  
 (24) in terms of their high cost of exchanges is  
 (25) necessarily being a burden and that was the

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- (1) acquisitions disappearing, if it were done by  
 (2) geography, there's one real concern  
 (3) about that. And that's that we should expect  
 (4) the fund to increase about tenfold. I mean,  
 (5) if you look at the California results where  
 (6) they do have the fund at the state level and  
 (7) the size of that fund, we have the RBOC  
 (8) territories that have a lot of high-cost  
 (9) territories in them that would then become  
 (10) eligible for high-cost funding.  
 (11) And the problem that poses then is we  
 (12) can't tolerate a tenfold increase in the fund.  
 (13) So, what we'll do is we will then have to use  
 (14) a forward-looking model of some sort because  
 (15) that's the only model we can manipulate to get  
 (16) a level of costs low enough to sustain the  
 (17) existing size of the fund but extend it to all  
 (18) geographic areas.  
 (19) There is some appeal to me, the idea  
 (20) that non-rural and rural carriers should be  
 (21) treated the same. If a customer lives in a  
 (22) high-cost area, who cares who their provider  
 (23) is? Except we can't ignore history. There  
 (24) has been a historical compact, if you like,  
 (25) struck where non-rural carriers have agreed to

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- (1) basis upon which they chose to divest them.  
 (2) They chose to divest those exchanges because  
 (3) they were able to do so and capture a premium  
 (4) value. The exchanges were worth more to the  
 (5) buyer than to the seller, which is typically  
 (6) why an economic exchange takes place. And  
 (7) until the funding mechanism was modified to  
 (8) provide those incentives - until the  
 (9) regulatory structure was modified to allow  
 (10) carriers to earn revenues that - and carry  
 (11) them below the lines so they don't get  
 (12) included in any reckoning of revenue  
 (13) requirement, those perverse incentives didn't  
 (14) exist.  
 (15) We didn't see the Bell companies  
 (16) selling off high-cost exchanges until very  
 (17) recently. We didn't see it for the first,  
 (18) almost, 100 years. They were net acquirers,  
 (19) not divestors. And I'm not sure they ever  
 (20) considered the burden. It's just that the  
 (21) structure was changing and it became  
 (22) profitable to sell them.  
 (23) MS. PARRISH: To speak to Wyoming's  
 (24) experience about sold exchanges is that Quest -  
 (25) U.S. West sold 20-something exchanges ten

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- (1) years ago. They were not very high quality.  
 (2) They've become very high quality. But I think  
 (3) that there can be abuse in the system as well.  
 (4) So, that's the torn judgment that, has it  
 (5) hurt. Because we have at least one company  
 (6) that has essentially gold-plated that system  
 (7) since acquiring it. But the other 20  
 (8) exchanges have just become nice, wonderful  
 (9) rural exchanges. So that's the problem is to  
 (10) avoid the gold-plating or the abuse.  
 (11) COMMISSIONER NELSON: I have one more  
 (12) question for Dr. Lehman, and I promised I'd  
 (13) come back to this in the previous panel. This  
 (14) idea of indexing and if we agree that perhaps  
 (15) we have different levels of calculations of  
 (16) support for a rural carrier and a wireless  
 (17) ETC, could we not index both of those and  
 (18) perhaps move towards more harmonization of the  
 (19) two methodologies over time?  
 (20) DR. LEHMAN: Yeah. The idea of  
 (21) indexing would have the same appealing  
 (22) characteristics for both sets of ETCs. The  
 (23) thing I would want to avoid is the equal level  
 (24) of support, because who knows if it's equal.  
 (25) In fact, I am willing to think that some

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- (1) wireless carriers might deserve more support  
 (2) than the current rural ILEC is getting, if  
 (3) they could justify what the investments are  
 (4) going to actually do and if some appropriate  
 (5) regulatory Commission looks at it and says,  
 (6) this is really something that's needed that's  
 (7) going to be provided. So, I don't think the  
 (8) levels of support should be the same, but  
 (9) capping them does provide incentives for cost  
 (10) reduction for both kinds of carriers.  
 (11) COMMISSIONER NELSON: Thank you,  
 (12) Madam Chair.  
 (13) CONSUMER ADVOCATE GREGG: Dr. Lehman,  
 (14) following up on that. If you believe that it  
 (15) is not proper to equalize support and that  
 (16) wireless and wireline technologies are  
 (17) different, do you think that the current  
 (18) support system for non-rurals, which provides  
 (19) equal per-line support to all ETCs is wrong?  
 (20) DR. LEHMAN: Yeah. I think it's just  
 (21) as wrong as it is for the rural carriers, but  
 (22) it probably matters less since it's so much  
 (23) less support being collected by non-rural  
 (24) carriers. It's very concentrated where it is,  
 (25) and that's where you see competitive ETCs

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- (1) apply for that status.  
 (2) And the concern that I would have is  
 (3) what demonstration do we have that the higher  
 (4) support - that high-costs are what those  
 (5) wireless carriers are actually experiencing  
 (6) there, and that they're using the money to  
 (7) actually upgrade service there. So, that's  
 (8) all I would ask for is that they demonstrate  
 (9) their need for the support and their use for  
 (10) the support, whether it's a rural or non-rural  
 (11) territory.  
 (12) CONSUMER ADVOCATE GREGG: Mr. Berge,  
 (13) you stated that there was a natural cap on the  
 (14) amount of support that would be paid to  
 (15) support multiple lines in high-cost areas.  
 (16) Given that the projections for incumbent rural  
 (17) LECs for the first quarter 2005 on an  
 (18) annualized basis is for support of two and a  
 (19) half billion dollars, what level of cap would  
 (20) you think that we would ultimately reach if we  
 (21) allowed the fund to just continue to rise to  
 (22) its natural level?  
 (23) MR. BERGS: Well, first of all, I  
 (24) want to clarify. The amount of support  
 (25) provided to a competitive ETC is what I think

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- (1) has a natural cap attached to it because,  
 (2) again, as each competitor enters a market, a  
 (3) consumer is only going to purchase one or  
 (4) maybe two lines. And, in fact, I believe that  
 (5) in the long run while it's been demonstrated,  
 (6) I think there's some agreement amongst the  
 (7) panel that wireless isn't currently accepted  
 (8) as a substitute for wireline. That number has  
 (9) increased over the last couple of years from  
 (10) an estimated 3 percent up to, now, an  
 (11) estimated 6 or 7 percent.  
 (12) And over time - well, first of all,  
 (13) the reason for that, I think, is wireless  
 (14) hasn't received funding in the past, and as a  
 (15) result hasn't been able to build the  
 (16) infrastructure required to avoid the  
 (17) antiquated equivalents of a party line only in  
 (18) wireless terms. So, I think in the long run  
 (19) you're going to have some more substitution  
 (20) and, in fact, you're going to see a downward  
 (21) turn in the overall amount of support.  
 (22) I can't give you a number for where  
 (23) this is going to top out, but one way to  
 (24) control that is to maintain a cap or at  
 (25) least - until we can come to a true

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- (1) portability of support from wireline to
- (2) wireless, we maintain a cap on the wireline
- (3) cost portion of the funds and allow CETCs to
- (4) enter. As competition comes in, again, we can
- (5) pick our number and we can create our
- (6) multiplier, X dollars of per line support
- (7) times two connections for every person living
- (8) in that high-cost area.
- (9) And, again, one of the keys to
- (10) reducing the impact of the current mechanism's
- (11) ability to grow in the short term is to
- (12) disaggregate that support. If we put it only
- (13) in the high-cost areas, the only way that
- (14) growth increases astronomically is if more
- (15) people move into that highest cost area of a
- (16) study area, breaking it into the zones has
- (17) that inherent cap effect.
- (18) MR. COLE: I would comment on the
- (19) concept of a natural cap if you have multiple
- (20) wireless carriers within that. I guess I
- (21) would disagree and maybe reference to some of
- (22) the testimony that was in the pre-filed
- (23) document that I had, where there had been
- (24) situations of where there are more wireless
- (25) subscribers on a billing list than there are

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- (1) population in the area. I mean, that's one
- (2) wireless carrier. If you add multiple, that
- (3) can happen.
- (4) I know this is similar to the article
- (5) we talked about earlier. You're always going
- (6) to have anomalies. You're going to have
- (7) things that aren't done appropriately and
- (8) don't make that rule instead of the exception.
- (9) But I would point you to those references to
- (10) say that under the current system that
- (11) incentive exists.
- (12) in the past ten years - or until
- (13) about five years ago, I was in the wireless
- (14) area of our business and was the president of
- (15) our wireless operation for a couple of years.
- (16) And I can tell you it was a constant
- (17) challenge. When you have compensation
- (18) programs, at that point for distribution,
- (19) whether it be agents or others, that promote
- (20) uneconomic things to happen, they're going to
- (21) happen. The things you incent are going to
- (22) happen. And if you incent funds based on
- (23) customers on a billing list, that billing list
- (24) is going to be higher probably than it should
- (25) be, whether that's going to a bank in a

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- (1) metropolitan area that has 50 branches and 1
- (2) branch in the rural area. And the salesman
- (3) says, hey, if you'll let me send all the bills
- (4) to that branch, I'll give you a 10 percent
- (5) discount. I'm not saying those things are
- (6) happening but the incentive is there, and that
- (7) is some of the risk you run with the current
- (8) system that we have in place.
- (9) COMMISSIONER JABER: I thought it
- (10) would be appropriate to end the questioning by
- (11) delving into the logistical aspects of
- (12) whatever gets implemented, and Mr. Johnson
- (13) touched on that a little bit with regard to
- (14) workshops. But the general question for any
- (15) of you is that in determining what the
- (16) appropriate methodology will be going forward
- (17) and calculating support, what is the best
- (18) procedural mechanism the FCC should use to
- (19) adequately determine the best approach? And
- (20) I'd ask, and you have already, to think
- (21) outside the box of the traditional paper
- (22) hearing that the FCC and the Joint Board uses.
- (23) That's the first general question - and not
- (24) that there's anything wrong with that.
- (25) The second question relates to the

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- (1) logistics associated with administrative
- (2) expenses and what ongoing role USAC would
- (3) have, and is there a mechanism that mitigates
- (4) the concern as it relates to cost studies that
- (5) get presented and USAC implementation going
- (6) forward. Those are the two questions.
- (7) MS. PARRISH: Commissioner, as to
- (8) your first question, in addition to any
- (9) process that is used to come up with -
- (10) whether it's a form for the wireless
- (11) submitting their embedded costs or a model for
- (12) forward-looking costs, I think there should be
- (13) some procedure prior to implementation but
- (14) after development for parties to comment.
- (15) It's that I think that when the non-rural model
- (16) was developed there were a number of parties
- (17) that late in the game said, wait, some of the
- (18) inputs are wrong. But it was too late,
- (19) really, to change it before it needed to be
- (20) implemented. So, I think there needs to be to
- (21) general-to-the-world opportunity to look at
- (22) what has been developed and say, you know,
- (23) here are the key inputs; you know, do these
- (24) look right for your company or for your state.
- (25) And so, I would offer that suggestion.

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- (1) COMMISSIONER JABER: Anything  
 (2) relating to the USAC concern?  
 (3) MS. PARRISH: My suggestion for USAC  
 (4) may be a little off point of this hearing, but  
 (5) one of the concerns I have has to do with the  
 (6) certification of the funds. I think that some  
 (7) of the - I think I can speak for my own  
 (8) state, is that on the wireless certification  
 (9) it was simply a self-certification done by the  
 (10) carrier to the Commission, forwarded to the  
 (11) FCC. And there were some strong concerns  
 (12) about that self-certification. And I don't  
 (13) believe USAC is doing any auditing of those  
 (14) certifications at this point, and I understand  
 (15) resources issues and so forth. But, you know,  
 (16) in my ideal world, I think that the auditing  
 (17) or spot-checking of certifications would be a  
 (18) very useful thing.  
 (19) MR. JOHNSON: I was to going comment  
 (20) on that second question as well. We've been  
 (21) told that USAC has been directed to conduct a  
 (22) number of audits of receivers of high-cost  
 (23) funds over the 2005 calendar year. And I  
 (24) understand they're gearing up to do that. And  
 (25) it struck me that if CETCs should - you know,

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- (1) we develop a mechanism for CETCs to report  
 (2) their own costs and receive funds based on  
 (3) that, they ought to have a similar audit  
 (4) process. There's not going to be much  
 (5) difference in the process itself, you're  
 (6) obviously auditing different numbers. But  
 (7) you're not auditing a different process.  
 (8) COMMISSIONER JABER: Dr. Selwyn.  
 (9) DR. SELWYN: As to your first  
 (10) question, it seems to me that any carrier,  
 (11) whether it's an ILEC or a CETC, that is going  
 (12) to be relying on its own costs as a basis for  
 (13) support, should be required to provide  
 (14) information with respect to that if we're  
 (15) going to adopt any sort of embedded cost  
 (16) standard. And it's been suggested that CETCs  
 (17) should also provide embedded costs. I don't  
 (18) think that - for reasons I've talked about  
 (19) that having a different level of funding for  
 (20) CETCs versus ILECs is appropriate.  
 (21) In any event, if the ILEC funding  
 (22) mechanism is to be maintained, the support  
 (23) needs to be examined with respect to all  
 (24) revenue sources associated with that  
 (25) infrastructure, not just sources of revenue

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- (1) that are considered to be associated with  
 (2) local service. If the ILEC is capable of  
 (3) operating profitably with all its revenue  
 (4) sources, it shouldn't be entitled to - and  
 (5) support in whatever it does draw should be  
 (6) based upon the deficiency relative to all  
 (7) revenue sources.  
 (8) I believe that going forward we  
 (9) should be looking at forward-looking costs  
 (10) that are not based on specific carrier costs,  
 (11) but are based upon model costs which reflect  
 (12) what would be expected from an efficient  
 (13) provider. And that should be the basis for  
 (14) funding all carriers. And that, in effect,  
 (15) gets us out of the rate case and auditing  
 (16) requirements. If a carrier wants and believes  
 (17) that it - it confronts such extraordinary  
 (18) conditions that the model costs simply do not  
 (19) capture those conditions and it wants to make  
 (20) a case, then it should, in effect, make a  
 (21) revenue requirement case.  
 (22) MR. JOHNSON: Can I make the comment,  
 (23) please, related to that? I heard in the  
 (24) earlier panel something that I thought was  
 (25) just blatantly wrong. And that is that rural

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- (1) LECs are not - no one is looking at their  
 (2) costs and therefore no one is - they're just  
 (3) free to run wild.  
 (4) I said the last time I appeared  
 (5) before you that we have lots of reasons to be  
 (6) efficient, not the least of which is we have  
 (7) competition in many of our operating areas.  
 (8) But at least one commissioner before me right  
 (9) now is a commissioner in a state in which we  
 (10) do business in which they do rate reviews  
 (11) quite often and look very hard at our cost  
 (12) studies and our separations and what we're  
 (13) actually doing and asks very, very difficult  
 (14) questions. So, this idea that somehow we're  
 (15) not being regulated as to rates and just  
 (16) allowed to run wild and rampant is just  
 (17) absolutely and patently false and absurd.  
 (18) MR. BERGS: I'd just comment on the  
 (19) second question that you asked. If we move to  
 (20) a system where CETCs' support is based upon  
 (21) their own costs, not only are we taking  
 (22) away - are we in fact motivating that CETC  
 (23) the same way we have historically motivated the  
 (24) ILEC to increase its cost in order to get more  
 (25) support, hopefully the net result being more



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(1) infrastructure is developed, but even in an  
 (2) inefficient manner.  
 (3) But beyond that, logistically, you  
 (4) are forcing an absolute duplication of an  
 (5) effort that we admittedly - or I believe USAC  
 (6) admitted has not been historically been able  
 (7) to maintain. One of the comments I noted in  
 (8) the USA article that was referenced earlier is  
 (9) that USAC staff is simply unable from a  
 (10) manpower standpoint to do the kinds of audits  
 (11) that they would need to do. Now, what we  
 (12) would be asking them to do is double first,  
 (13) upfront the cost studies that they have to  
 (14) initially identify to create the basis for  
 (15) support and double an unattained level of  
 (16) audit to ensure that those funds are actually  
 (17) being spent appropriately.  
 (18) MR. COLE: One thing I might - just  
 (19) to your question, because I do - it's a tough  
 (20) question to answer because I think it does  
 (21) entail a lot. I would say, though, that from  
 (22) my prior experience - I did serve, I think,  
 (23) at one time on the finance committee at the  
 (24) CTIA when I was in the wireless business. And  
 (25) I know we endeavored at that time to try to

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(1) come up with some standard accounting, some  
 (2) standard ways of recognizing the commissions  
 (3) and other things. Well, being involved in our  
 (4) partnerships and also in others, I think there  
 (5) is some pretty standard accounting methodology  
 (6) that would not make that an impossible task.  
 (7) Also in a number of the rural service  
 (8) areas because of the way the incentives began  
 (9) are represented by separate rural service  
 (10) areas. Independent telcos and others have a  
 (11) separate set of accounting records, even for  
 (12) their specific area, not necessarily that  
 (13) service area, but at least more defined  
 (14) geographically. So, I do think it's possible,  
 (15) and I do think there is some consistency. And  
 (16) I think the analysis of costs would be  
 (17) possible. How to take that and equate that to  
 (18) USF support would be very challenging. Thank  
 (19) you.  
 (20) COMMISSIONER ABERNATHY: Thank you  
 (21) very much to the commissioners on the joint  
 (22) board and also to the panelists. This was  
 (23) very, very informative for us. No doubt we  
 (24) will have many interesting debates as we go  
 (25) forward dealing with all of this. But I do

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(1) appreciate all your time here, for your  
 (2) written submissions, and for your willingness  
 (3) to come there. So, with that, we are  
 (4) adjourned.  
 (5) (WHEREUPON, the second panel  
 (6) concluded at 4:55 pm.)  
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(1) REPORTER'S CERTIFICATE  
 (2)  
 (3) STATE OF TENNESSEE  
 (4) COUNTY OF DAVIDSON  
 (5)  
 (6) I, MELISSA M. SCHEUERMANN,  
 (7) Court Reporter, with offices in Nashville,  
 (8) Tennessee, hereby certify that I reported the  
 (9) foregoing public meeting on HIGH-COST  
 (10) UNIVERSAL SERVICE SUPPORT FOR AREAS SERVED BY  
 (11) RURAL CARRIERS AND RELATED ISSUES by machine  
 (12) shorthand to the best of my skills and  
 (13) abilities, and thereafter the same was reduced  
 (14) to typewritten form by me.  
 (15) I further certify that I am  
 (16) not related to any of the parties named  
 (17) herein, nor their counsel, and have no  
 (18) interest, financial or otherwise, in the  
 (19) outcome of the proceedings.  
 (20)  
 (21)  
 (22) MELISSA M. SCHEUERMANN  
 (23) Associate Reporter  
 (24) Notary Public  
 (25) State of Tennessee At Large.